The [illegible]

Econo[illegible]view

Vol. XXI, No. [illegible] [illegible]

Papers [illegible]

of the

Forty-th[illegible] Annu[illegible] [illegible]ting

of the

American E[illegible] Association

[illegible]

Edited by [illegible]

Publication Office: [illegible]ship [illegible]

Executive Office: American [illegible], Northwestern University, Evanston [illegible]

Editorial Office: [illegible]

[illegible]

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The American Economic Review

Vol. XXI, No. 1 SUPPLEMENT March, 1931

Papers and Proceedings

of the

Forty-third Annual Meeting

of the

American Economic Association

Edited by the Secretary of the Association

Publication Offices: Menasha, Wisconsin, and Evanston, Illinois.
Subscriptions: American Economic Association, Evanston, Illinois.

Printed by
The George Banta Publishing Company

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Discussion: Abbott P. Usher, Harvard University; George W. Stocking, University of Texas; V. M. Bladen, University of Toronto; Broadus Mitchell, Johns Hopkins University.

2. *The Small Loan Business*
Chairman: W. Frank Persons, American Association of Personal Finance Companies.
Discussion: Louis N. Robinson, Swarthmore, Pennsylvania; Clyde O. Fisher, Wesleyan University; Franklin W. Ryan, National Cash Credit Association; R. W. Pitman, Morris Plan Company.

3. *Marketing—The Social and Economic Aspects of Chain Stores*
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Tuesday, *December 30, 1930*

9:00 a.m. Business Meeting—Reports of Officers, Committees, etc.

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Presiding Officer: Paul H. Douglas, University of Chicago.
General Topic: *Industrial Changes and Unemployment.*
Papers: William M. Leiserson, Antioch College; Evans Clark, Twentieth Century Fund, Boston, Massachusetts.
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[1] Mr. Garrard's paper is to be published by the American Farm Economic Association.

[2] The papers of this session will be printed by the American Association for Labor Legislation.

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1. *Economic Theory—Institutionalism: What it is and What it Hopes to Become*

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Presiding Officer: Matthew B. Hammond, Ohio State University.

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8:00 P.M. FIFTH SESSION (Joint meeting with the American Political Science Association and the American Sociological Society)

Presiding Officer: Newton D. Baker, Former Secretary of War.

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Presiding Officer: Wesley C. Mitchell, Columbia University.

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Papers: Carl Snyder, Federal Reserve Bank of New York; Josef Schumpeter, University of Bonn.

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Presiding Officer: Charles A. Beard, New Milford, Connecticut.

General Topic: *Public Power Control.*

Papers: Ernest Gruening, Editor, *Portland Evening News;* Ralph L. Dewey, Ohio State University.

DISCUSSION: F. G. Crawford, Syracuse University; Martin G. Glaeser,[6] University of Wisconsin; Irston R. Barnes, Yale University.

[3] Will be published by the American Sociological Society.

[4] Will be published in the March number of the *American Economic Review.*

[5] Will be published by the American Political Science Association.

[6] No manuscript submitted.

THE purpose of the American Economic Association, according to its charter, is the encouragement of economic research, the issue of publications on economic subjects, and the encouragement of perfect freedom of economic discussion. The Association as such will take no partisan attitude, nor will it commit its members to any position on practical economic questions. It is the organ of no party, sect, or institution. Persons of all shades of economic opinion are found among its members, and widely different issues are given a hearing in its annual meetings and through its publications. The Association, therefore, assumes no responsibilty for the opinions expressed by those who participate in its meetings.

F. S. Deibler
Secretary

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ROUND TABLE CONFERENCES

ECONOMIC HISTORY—THE DECLINE OF LAISSEZ FAIRE

MAX HANDMAN, *Chairman*

ABBOTT P. USHER.—The doctrine of laissez faire may best be regarded as a phase in the history of economic liberalism. Liberal thought emerges earlier, was never guilty of the extravagances that can legitimately be associated with laissez faire, and will persist long after the famous catchword has passed into history.

Economic liberalism emerges in the sixteenth century, both as a theory and as a program for action. The philosophy of the common weal, though inadequately grounded in analysis, embodied many fundamental principles of liberalism. It found expression in France in the advocacy of freedom for the internal grain trade. The policy was not effectively carried out at that time but the tradition was not lost. For two centuries, the freedom of the domestic grain trade was the most important single issue of economic policy, and the most specific expression of the growth of liberal thought.

It was thus more than chance that the catchword "laissez faire" was affected in Colbert's time. The old traditions gained new force and despite protectionist leanings in other phases of economic policy in this field, Colbert furthered the work of curtailing the powers of local officials and local magnates. The policy of non-interference as a comprehensive document does not emerge until 1736, when both the catchword and the categorical doctrine appear in writings of the Marquis d'Argenson. Use of the term is also attributed to Vincent de Gournay, whose official position gave wider political significance to the policy. From these sources the doctrine was taken over by the physiocrats.

In the English-speaking countries the earlier history of the doctrine is obscure. The catchword was not used by Adam Smith or the earlier classical writers. Their concepts of policy, too, embodied important qualifications. The term "laissez faire" was first used in English by Franklin in his *Principles of Trade* (1774). He cites the story of the colloquy between Colbert and Legendre, but without much regard to all the implications of the term. In the equivalent form "be quiet," the idea appears in Bentham's *Manual of Political Economy* in 1793, and in later writings the phrase "leave us alone" appears. Bentham is usually credited with the term "laissez faire" in England, though in strict accuracy some qualification is desirable. If we define laissez faire as an uncompromising doctrine of non-interference, Bentham should not be held guilty of many of the excesses and overgeneralizations to be found among his later admirers. His actual program was one of constructive liberalism, rather than of destructive, uncompromising non-interference.

The laissez faire doctrine does not assume its characteristic form in England until the days of the factory controversy and the Anti-Corn Law League. The rigid formulation of the policy is more largely the work of the agitators than of the economists, but Nassau Senior lent the weight of his name to a categorical assertion of the doctrine and through him the

doctrine in its extreme form soon came to be loosely associated with the entire classical school. All distinction between liberalism and laissez faire was lost.

The positive development of factory legislation in changed public sentiment gradually made it impossible to maintain an uncompromising doctrine of non-interference, but it was difficult to overcome the tendency to regard laissez faire in its extreme form as the necessary and legitimate culmination of the philosophy of the natural order. Some of the postulates and implications of the older records seem to lead directly toward a rigid doctrine of non-intervention. Notable in this respect are three postulates: that individual interests are identical with the general interests of society; that institutional mechanism to give effect to primary economic adjustments existed from the beginning or developed spontaneously; that a free contractual society is inherently competitive. The leading economists seem always to have had misgivings over these concepts and hesitated to accept their full logical consequences. The development of liberal thought requires restatement of all these fundamental concepts.

George W. Stocking.—The industrialization of Germany was effected in the second half of the nineteenth century and was brought about through the borrowing of the mechanical technology worked out first in England about a half century earlier. This technology was borrowed for the most part free from the ideas and notions, the institutional equipment, which had developed in England under the impact of the industrial revolution. This industrial system was fitted into an institutional scheme of things quite different from that in which it had been worked out—into a mercantilistic or neo-mercantilistic system as contrasted with the English system of laissez faire. The result was state regulation and control, almost from the outset. The steps by which this control was brought about are best illustrated in the mining industries in which the state had for long participated as an active producer. When confronted by the competition of private business in the production and marketing of coal, salt, potash, and other mineral products, after the liberalization of the mining laws, the state resorted to the organization of the so-called *fiscus Cartel,* which in reality represented little more than an extension of the older so-called *Direktionsprinzip* by means of which the mining industries of the German states had been brought under state control in the later feudal period. The governmental circumstances of the cartel's origin (which writers on the German combination movement have generally ignored) contribute much to an understanding of the state's attitude toward the cartel movement. Sired as it was by the state, it is small wonder that the cartel was given a free atmosphere in which to develop. This *fiscus Cartel* became a pattern or type form on which the whole of German industry was organized before the war.

Just as American writers on the cartel movement have generally overlooked the circumstances of its origin, they have likewise misinterpreted its economic significance. There is little evidence that in the pre-war period cartel control made possible the elimination of the wastes which are presumed to characterize a competitive régime in a machine society. On the

contrary, price control and allocation of output among the members of the cartel served to bring additional capital into a given industry and to make for continuous overcapacity. Allocation of output among the members of the cartel, together with an excess of plant capacity in industry at large, tended to restrict the size of particular establishments and to retard mechanization and technological progress. Before the war, German industry was confronted with a surplus of plant capacity of an obsolescent and inefficient type. This fact seems clearly borne out by the post-war rationalization program which has been forced upon German industry by the losses Germany suffered from the war and the peace. The reorganization of her industries in an endeavor to retain or regain her economic position in a world in which the competitive struggle for markets has become increasingly severe, has necessitated the closing down of inefficient plants and the concentration of output on the more efficient. The increased scale of operation in the better plants has made possible a degree of mechanization not realizable under the cartel control as it had developed in pre-war days. In this movement towards rationalization, the state, through the socialization of the coal and potash industries, has taken the lead. It is interesting to note, however, that the cartel has served as a useful device for putting through the program. It has at least afforded a structure which has been utilized for purposes of social control.

V. W. Bladen.—Mr. Keynes in his pamphlet *The End of Laissez Faire* (1926) regrets that the end is not yet. Professor Dicey, on the other hand, in 1898, described with obvious misgiving the collectivist trend in English law, evident by 1870, dominant by 1880. Evidence of this changing attitude to state interference and freedom of contract he found in the laws affecting elementary education, the Workmen's Compensation Act of 1897, the Agricultural Holdings Acts, the Combination Act of 1875, the whole line of factory acts, the Conciliation Act of 1896, etc. When in 1914 he wrote the preface to the second edition of *Law and Public Opinion in England* his misgiving was intensified. Between 1906 and 1914, legislation had made the state responsible for the regulation of wages in certain industries, for the provision of old age pensions, for the operation of compulsory, state aided health insurance, and, in certain trades, unemployment insurance, for the feeding, medical inspection, and treatment of school children, and for the supply of working-class houses. Along with the extension of the social services provided by the state went the development of progressive taxation, the Finance Act of 1910-11 being the most important step in this direction. By 1914 there was a considerable transfer of income by legislation from the rich to the poor.

Since the war successive governments have extended and elaborated the schemes of social reform initiated between 1906 and 1914. Wage regulation has been extended especially by the Trade Boards Act of 1918 and the Agricultural Wages Act of 1924. Pensions for widows were provided by the Act of 1928. Unemployment insurance was greatly extended by the Act of 1920. The education bill presented to the House this session extends the school-leaving age to fifteen, and provides for a maintenance allowance

to those parents who cannot afford the curtailment of family wages entailed. Finally, housing schemes have been subsidized with varying generosity. The magnitude of the departure from laissez faire is evident when one looks at the *Drage Return of Public Social Services* presented to the House of Commons in 1927, and at the Colwyn Commission's estimate of the burden of taxation on incomes of various sizes. The obvious result of this policy has been the maintenance and even improvement of the physical health of the people in spite of continuing unemployment. There remain those, however, who fear the demoralizing effect of too lavish doles on the working class, and of too heavy taxation on investment and enterprise. These are possible indirect effects which we cannot yet assess.

The breakdown of laissez faire is evident in other fields besides that of the social services dealt with so far. Most significant is the government promotion of "rationalization" of industry. The forcible grouping of the railways in 1921, the co-ordination of the supply of electrical power under the Act of 1926, the Coal Marketing Act of 1929, and recent administrative intervention to encourage "rationalization" in Lancashire, are examples of this new activity. Meanwhile the Ministry of Agriculture is engaged in a pathetic effort to restore agriculture to a paying basis. And, industry and agriculture alike are looking for protection from foreign competition. It seems probable that the policy of free trade will soon be reversed. It should be noted that the whole story is not written in the statutes. The history of the Poor Law, for instance, shows a gradual abandonment of the strict individualist principles of 1834, and a growing recognition of communal responsibility. This revolution in the treatment of poverty was effected without any new legislation. Also one should note the changes brought about by a more paternalistic interpretation of the common law.

The influences which contributed to the decline of laissez faire are complicated; only some of the more obvious influences can here be indicated. First, the doctrine of laissez faire could not prevail against the facts once they were known. Thus the report of Sadler's Committee on the Labour of Children converted the public to the necessity of a stricter factory act. Secondly, the character of the government has changed, the efficiency and honesty of public officials increased, and the franchise was extended. Whether certain things ought to be done by a government largely depends on the efficiency of administration; whether they will be done depends on the liberality of the franchise. Third, the character of the industrial system has changed; machine industry and corporate organization raise new problems. Competition and laissez faire decline together. Finally, changes in political and economic theory provided an intellectual justification of the development of state interference. New theories of the state made even the title of Spencer's *Man Versus the State* sound ridiculous. Economists, influenced by the changing intellectual atmosphere and by the growing experience of social control paid more attention to the cases where private and social interests were divergent.

Broadus Mitchell.—Alexander Hamilton, the realist, prompted by the needs of his own country, questioned physiocratic and free trade doctrines, and

founded the American School of Political Economy. He expressed the central principle that economic power proceeds from the association of all branches of economic activity. The War of 1812 gave fresh opportunity for assertion of nationalist doctrines; Mathew Carey became interpreter and propagandist for Hamilton's views. Henry C. Carey bolstered the American System with formulated theory. Free trade writers there were, of course; but protectionists spoke more in the name of the American people, if the course of legislation may be trusted. Henry George was the perfect individualist, but his practical proposal was taken over by socialists.

Manufactures have steadily gained upon agriculture. The foundations of industrial development were laid in the generation preceding the Civil War—internal improvements, inventions, general incorporation laws. The war energized the process; inflation propelled it further forward. Competition led to consolidation. Antitrust acts could not prevent a determined economic drift. The World War turned the country from laissez faire—price fixing, excess profits taxes, economic control by administrative boards. Since the Armistice, integration of industry has gone on at a rapid pace. In generation and transmission of power, large-scale production and centralized control under private auspices prove more efficient than individual municipal ownership. The new collectivism is one of capitalist initiative throwing the wastes of competition overboard. Chains of many sorts spring up and grow, to the exclusion of the small proprietor.

Amendment of laissez faire in public opinion has been tardier than its denial in business practice or even in economic thought. Robert Owen made a collectivist flourish which lingered in the public memory, and his disciples forwarded such social experiments as labor organization and publicly-supported education. The steady tendency toward central banking and control over note issue showed the public's appreciation of the social nature of credit. And greenbackers and free silver advocates, on their side, were no less vigorous in denial of laissez faire principles. Most of the agencies which Congress set up to protect individualism—Interstate Commerce Commission, Federal Trade Commission, etc.—have lived to foster consolidation. The present depression is fertile in collectivist proposals, not the least of which comes from President Hoover, the rugged individualist. The country turns to subsidy, and there are signs that we begin to think of real preventives of recurrent social collapse.

William Jaffé.—Much confusion has arisen in the present discussion for want of any attempt to define the phenomenon considered and to classify its principal manifestations. Professor Usher's paper gives us the impression that laissez faire from the outset referred to the absence of governmental interference with the free play of purchase and sale, *sensu lato*. If that be our definition, then we may follow Professor Broadus Mitchell in making pertinent distinctions; but in the interest of a more complete statement, it would seem better to differentiate between (1) laissez faire as an objective fact, (2) laissez faire as a policy to be advocated, and (3) laissez faire as a methodological assumption in deductive economics. It is, perhaps, not surprising that the last category should have escaped the attention of economic

historians, since economic theorists themselves have not always made it clear whether they were talking about laissez faire because they liked the policy or because, whether they liked it or not, they were led by logical necessity to assume its existence in their reasoning. Evidences of a decline of laissez faire as a methodological device are not wanting in more recent theoretical treatises. This may not concern economic historians. It is of importance to economic historians, however, to distinguish between politically organized interference with business and a related but essentially different phenomenon —private monopoly. Free competition often exists only by virtue of the fact that the state does not "let alone and get out of the way," whereas monopoly not infrequently comes into existence because of laissez faire. Only in so far as trusts and cartels result from or invoke the aid of the state, is it justifiable by definition, to see in them signs of the decline of laissez faire.

Alvin H. Hansen.—Professor Usher called attention to the development of banking policy in England, and the relation of Ricardo thereto. He thinks that the attitude of the early economists toward state regulation of this character is inconsistent with their general liberal philosophy.

I am not so sure that this interpretation is correct. The fundamental basis of a laissez faire economy is a free market. But a free market presupposes contracts and the authority of the state to enforce these contracts. And contracts cannot be entered into and enforced without definitely regulated measuring rods. There must be a legally established yardstick, pound, gallon, etc. There must also be a legally established unit of value. And an ideally free market presupposes that the unit of value must be stabilized just as are the units of measurement. It is surely not without significance that Ricardo in his *Principles of Political Economy* always argued on the supposition that the value of money had remained constant.

The liberal economic philosophy has never opposed the stabilization of the price level. What it opposes is the various institutional arrangements which attempt to regulate individual prices. The philosophy of social control, on the other hand, has always placed the emphasis on the latter. Cartels, trusts, trade associations, trade unions, and governmental schemes for maintaining the prices of special commodities are all illustrations of the decline of laissez faire and the extension of social control.

So long as we have a laissez faire gold standard, our economic difficulties are intensified rather than minimized by the development of social control in other directions. Rigid wage-rates, inflexible railroad rates, controlled trust and cartel prices make a pronounced fall in the general commodity price level, a far more serious matter now than in the old days of all around laissez faire. The tension and strain placed upon the internal price structure, in consequence of a general fall in prices, is increased in the measure that institutional arrangements and governmental regulations prevent or render difficult the readjustments without which a new equilibrium in the entire price system cannot be reached. Social control tends to put society in a straight-jacket, and this is very painful in a dynamic world, particularly one subject to violent price fluctuations.

In England commodity prices have fallen forty points since 1925, yet wage-rates, bolstered up by trade unions, unemployment insurance, and trade boards, have not declined. In Germany cartel controlled prices actually rose from 1928 to 1930 while the general price level was drastically falling. The unprotected industries thereby suffered, first, because the high cartel prices in the great basic industries raised their costs, and second, because they had to take still lower prices for their own products since the high cartel prices absorbed a disproportionate share of the limited money income of the community. The uncontrolled industries were oversqueezed both ways.

This suggests that the proper remedy might be to bring all industries under organized control. Business consolidations, pools, amalgamations, cartels, organized restriction of output—these are indeed the remedies proposed by the farming and business community throughout the world. Yet if every industry succeeded in achieving the goal sought for, we should simply be cutting off each other's noses. With sufficient social control of this character we should indeed be able to stop the depressional effect of a fall in the price level. But this stability would be purchased at the cost of a lower real income all around.

Periods of downward price trend with accompanying depression and unemployment encourage an expansion of social control. But for the reasons I have indicated such social control frequently has the effect of intensifying the maladjustments. The Copper Exporters, Incorporated, the Stevenson Act, the Canadian Wheat Pools, the Federal Farm Board, and the similar efforts in Australia and Hungary, the sugar control by Cuba, and coffee by Brazil illustrate the difficulties.

Here is a fundamental point of difference between the liberal philosophy and the philosophy of social control. It is a question of starting the job at the right point and we are not starting at the right place when we seek to maintain individual prices before the general price level has been subjected to control.

The problem of laissez faire versus social control is finally a problem of what kind of society is wanted. The free market of the laissez faire economy of the nineteenth and early twentieth centuries made bewildering progress; this no one will dispute. It is already evident from present observable trends that the regulated market of the controlled economy if it achieves its purpose will be, in comparison, relatively static. It will offer less progress but more security. And this is what the present generation wants. It is in this direction that all the social and political forces are striving with might and main. But the dynamic economic forces are not dead and will not easily or quickly be overpowered. There is a pronounced lag, perhaps increasing, of social control behind technical advance. Stability and security are not easy to achieve. The demon of change, uncertainty, progress is (perhaps fortunately) not easy to tame. It is by no means certain that we shall in the visible future be able to reach the stability sought by social control.

Carter Goodrich.—From this discussion, "The Decline of Laissez

Faire" emerges as an almost world-wide phenomenon. This tempts me to raise a question in terms of the anthropological controversy between the diffusionists and their opponents. In which of two ways has this widespread reaction come about? Largely by the diffusion of ideas, or largely by a sort of spontaneous generation in each country? Is the process the spread of a fashion in opinion? Do we, for example, turn against laissez faire because we read British criticisms of it? Or is it rather a series of like responses to the like stimuli of industrialism the world over, that would have occurred even without any exchange of social doctrines? And where important differences do remain, are they the results of exposure to different streams of thought or of differences in the underlying economic conditions?

Why, for example, has Australia abandoned laissez faire more completely than the United States? Diffusionists might point to the dates of significant origins—to Benjamin Franklin and the "spirit of '76" in the one case and in the other to the rush of settlers when the "gospels of '48" had made men "sick of the babblement of those who swear by Adam Smith." Their opponents might urge the importance of such indigenous factors as the contrast between America's small farming frontier and the drier land of Australia which threw the small man back into wage-earning instead, and they might also point to the case of New Zealand. In source of ideas, in early economic conditions, and in early social legislation, New Zealand was much like Australia; but its partial return to laissez faire, since it became a nation of independent dairy farmers, strongly suggests the influence of economic geography.

THE SMALL LOAN BUSINESS

W. Frank Persons, *Chairman*

Louis N. Robinson.—The personal finance or small loan business is legally differentiated by the size of the loan from other businesses providing credit facilities. Its legal setting today is the Uniform Small Loan Law (or similar legislation), which regulates the business of lending sums under $300 at rates in excess of the legal contract rate. This law requires money lenders to be licensed and to post a bond of $1,000, and provides for supervision, inspection, and audit by the state banking department. Maximum interest is fixed at 3.5 per cent monthly on unpaid balances and is not to be compounded; no other charges for fees, etc., are legal, except filing fees if necessarily and actually paid out, and any violation renders the entire loan void and a misdemeanor. As protection to the borrower, the lender is required to give a statement of the loan, its amount, maturity, security, rate of interest, etc., and a receipt for all payments; the lender must permit the borrower to pay the whole or a part of the loan at any time with interest only for the time used, and upon repayment all pledges and papers must be restored. "Salary buying" is regulated in the same manner. Further provisions concern annual license fees, revocation of licenses, punishment for misleading advertising, inspection of records of non-licensees, etc., and aim to prevent various evasions. Wage assignments or chattel mortages are valid only if in writing and signed by borrower and wife, while collection cannot be made on more than 10 per cent of wages and wage assignments are valid security to this extent only.

Twenty-one states (Maine, Illinois, Indiana, Connecticut, Georgia, Iowa, Arizona, Maryland, Virginia, Oregon, Utah, Rhode Island, Massachusetts, Michigan, Pennsylvania, Florida, Tennessee, Ohio, Wisconsin, Louisiana, and New Hampshire) have enacted this law with minor variations, and at least five others (Colorado, Missouri, New Jersey, New York, and West Virginia) have laws based on similar principles of supervision, regulation, etc., while the supreme courts of five states (Ohio, Illinois, Pennsylvania, Georgia, Louisiana, and Colorado) have upheld the constitutionality of the law.

The small loan business aggregates about half a billion dollars a year, and employed capital probably totals three hundred million dollars, including units with twenty thousand dollars invested and chain organizations representing forty or fifty millions.

The rate allowed by law governs the kind and the size of loan (i.e., under $300), because of the relatively higher cost of making the smaller loans. So if the return allowed on smaller loans is not sufficient to cover the cost, the natural tendency is to cut them off. Since the rate structure in the regulating law thus affects most sharply the size and kind of loans, a state should decide what size loans are to come within the scope of its laws and then by cost analysis relate the rate structure to them. The rate allowed determines of course the degree of risk that can be accepted in a loan.

The degree of risk in the small loan business is shown not by the per-

centage of loss, which is low, but by the high cost of conducting the business. Losses can be kept down by patient inquiry into the credit standing of applicants and by eternal vigilance in collections, but these necessary operations are costly. The chattel security usually given in small loans would rarely cover a loss, and repossession cases are few. Small loans are usually made to husband and wife, who together constitute a little business enterprise requiring careful evaluation before a loan can be made. Where does the man work and how long has he held his job? What does he earn, what are his expenses, and what can he spare to pay on the loan? Is the family partnership well managed, efficient, and harmonious? Stability of the family unit is necessary to the lender, and this fact is the best answer to the charge that loans to this class of borrowers demoralize family life.

If the rate of 3.5 per cent a month on very small loans is increased, loans will be made which cannot now be made. If it is lowered, the loan service will be restricted and may reach a point where the business will not pay. This was exactly the situation which the Russell Sage Foundation sought to remedy by means of the Uniform Small Loan Law. The 3.5 per cent rate has brought the present business into existence, and desired changes in its outline or scope can be effected by changing the rate. Some experiments in rate structure have recently been tried in New Jersey, West Virginia, and Missouri. Competition working under a given rate schedule will produce a given type of business. From a social standpoint, attention should be fixed more on the desired type or outline of business than on the rate. The rate is a means to an end, not an end in itself, and must always be viewed in the light of its purpose, which is to provide reasonable credit facilities for a certain group in need.

Clyde Olin Fisher.—Morris Plan banks are subject to criticism by reason of the veil of obscurity with which they surround the rate of interest charged for loans. A recent book on these banks speaks of the "$8.00 a year which the borrower pays." In fact the $8.00 is deducted in advance from a $100 loan and the borrower agrees to repay $2.00 weekly for a period of fifty successive weeks. Mathematically this means 17.3 per cent nominal interest and 18.77 per cent effective interest on the loan. Even though such a rate may be justified for loans endorsed by two responsible men—this is open to question—there is no defense for the attempt to conceal the actual rate. This should be admitted frankly and then an effort should be made to appraise the practice. There is every indication that these banks have opened up a fertile field for exploitation by private capital.

The justification for this rate of interest is usually based upon the heavy overhead expense incident to making small loans and to the trouble involved in securing prompt repayment of principal. This may be granted in part. What is overlooked is that this is the wrong approach to the problem. In fact, the interest rate permitted determines the least common denominator to whom banks may lend with safety. If only the rate be sufficiently high the bank can afford to accept loans with a large hazard, the gains offsetting losses on bad debts. In short, this means a policy liberal as to the type of

clientèle accepted, but with the result that the more deserving borrowers have their rates loaded to pay losses incurred elsewhere.

Small loan companies are equally guilty with Morris banks in concealing the true rate of interest charged. The law usually permits 3.5 per cent monthly. This is an effective rate of 51 per cent, not the 42 per cent usually mentioned. Mathematically the payment of interest monthly is the compounding of the payments at the end of each month. Only confusion results from any attempt to obscure the true effective rate.

Operators in the small loan field, as do Morris banks, defend the high rates of interest by citing heavy overhead expenses and follow-up work in making collections, as well as losses from bad debts. But it has been shown rather conclusively that bad debts in both cases are negligible. It is claimed that a 3.5 per cent monthly rate is needed to induce capital to enter the field and drive out loan sharks who charge even higher rates. The proponents of the system apparently overlook the fact that the rate of interest determines what customers will be accepted; i.e., the marginal borrowers. The higher the rate the more reckless the lender may be in granting loans. It is not possible to ascertain what rate of interest will result in a fair return on capital. Rather, the first step is the selection of the type of borrower to be accommodated. This determines the rate required rather than vice versa. In the answer to this problem of what customer to select the operator has no greater wisdom than does the layman. It is a matter of the philosophy of credit in general and of sound social policy.

Aside from what has been said, granting that people now having access to small loan companies should continue to be able to borrow, it does not follow that present rates are necessary to the fulfillment of that purpose. It is not true, as is so often assumed, that competition in this field will bring the rates down. Rather, the existence of a large number of companies means a smaller volume of business for each and hence a heavier loading of the interest rate to cover overhead. When companies have a loan balance of only a few thousand dollars, as many now have, it follows necessarily that a high rate is required to pay overhead costs. Also, we know that the chain companies, where the studies have been made, show much higher profits than locally owned marginal companies. There is no social justification for holding, as do many, that the rate should be high enough to enable the local company, even though less efficient than the chain, to earn a return that will attract capital into the field. Better let this capital seek other channels. This is an extreme form of the "home market" argument found in some other fields. If it be granted that these companies are legitimate only as agencies to promote the general welfare and to make loans to necessitous borrowers who cannot secure credit elsewhere—and this, I hold, should be admitted—the state owes it to the borrowers to insist upon conditions that will make the rates as low as is consistent with a meeting of the purpose for which licenses are granted the companies. It follows logically that the state has a duty to prevent duplication which causes a higher charge. These companies should be recognized frankly as public utilities and the business should be safeguarded from the free entrance into the field

of any one who has a few dollars and sees here a chance for a profitable investment—profitable to him but injurious to the borrowers who for that reason are charged higher rates.

Sound public policy further requires that interest rates be graduated with the size of the loan. The cost of making a $50 loan is approximately as high as that for a $300 loan. Hence, there is a temptation for the lender to induce borrowers to take loans larger than needed or desirable. Here there is opportunity for conflict between general welfare and private gain. The state, then, has a responsibility to graduate the rate allowed so as to remove this temptation to overlend necessitous, frequently unwise, borrowers.

The investigations made so far indicate that more than half these loans are made to repeaters. This is one of the most serious indictments against the operation of companies dedicated to the promotion of general welfare and the assistance of necessitous borrowers. Any such loan, made at an effective interest rate of 51 per cent, means a serious impairment of purchasing power to those least able to suffer such a reduction. Here is an opportunity for improvement on the part of the lenders.

Franklin W. Ryan.—One of the notable examples of confused thought regarding personal finance and chattel loans is the erroneous belief that all kinds of personal loans are to be compared strictly on the basis of the money costs involved. The charges for personal finance service have been denounced on many occasions, by contrasting what is called the "high" charge of 42 per cent a year for a chattel loan with the "reasonable" charges of 9.5 to 17.3 per cent a year by personal loan departments of banks and credit unions, and the computed annual cost of 17.3 per cent a year by the industrial banks.

But money costs are not all the costs of personal loans. If we are to make an analysis of costs, there are other kinds of costs which should at least be taken into consideration; namely, opportunity costs and sacrifice costs.

There are some writers who believe that where interest is paid monthly, the borrower loses an opportunity to invest the monthly interest payments at a profit, so that a considerable amount might have been realized by the borrower by the end of a year. But if we are going to consider opportunity costs, we should also consider sacrifice costs, which are more real than opportunity costs.

A sacrifice cost may be defined as a cost which is a real cost, but which is not paid as money. It may be incurred either as loss, annoyance, humiliation, or as a nuisance to the individual borrower or to several borrowers jointly liable for the payment of the loan.

One of the best examples of a sacrifice cost may be shown in connection with a pawnbroker's loan. If a young lady pawns her $500 fur coat and gets a loan of $100 on it at 3 per cent a month, the money cost of the loan is not the only real cost. She also must sacrifice the possession of the coat for the full period of the loan. Undoubtedly, this sacrifice cost to her could be measured in money; but, of course, it would be difficult to find two people who would agree on the value to be placed upon it.

During October and November, 1930, questionnaires were prepared for the purpose of making an approximation, if possible, of the sacrifice costs of co-maker loans. It had been said over and over again in New Jersey that the co-maker loan companies and the personal loan departments of banks would be able to take care of the business done by the chattel loan companies at half the cost. Yet, when the statutory maximum of the New Jersey small loan law was reduced to 1.5 per cent a month, the co-maker loan companies, although deluged with applications, did not take care of the business. An overwhelming majority of the applicants either could not get high grade co-makers, or else did not want to have co-makers on their notes.

When directed to go to the personal loan department of a bank or to a co-maker loan company, many of these applicants for loans declared that they were willing to pay three or four times the mere money costs of co-signer loans to be able to get straight chattel loans, as was possible under the old statute of 1914.

Most of these borrowers have no choice in the matter. Three out of every five applicant-borrowers, cannot get any endorsers at all.

There are sacrifice costs in connection with co-signer loans which in some cases make them more costly than chattel loans. This is what hundreds of New Jersey applicants for loans during 1930 meant when they said, "We had rather pay three times the cost of a co-signer loan to get a chattel loan."

We interviewed one hundred people living in Jersey City and in New York, and asked each person to make an estimate of what he would be willing to pay over and above the basic money cost of $24 of a $300 co-maker loan, to avoid the attendant sacrifice costs caused by having endorsers. Some people said they would be willing to pay $5.00 to be able to get a $300 chattel loan and thus avoid having co-signers; others said they were willing to pay as high as $50. The average of the one hundred replies was $27.52. If this $27.52 be added to the $24 discount on a co-maker loan, normally paid off in twelve months, the total of both money costs and sacrifice costs thus becomes $51.52, or at the rate of 37.14 per cent a year.

On the other hand, the co-signers should also be considered. The bank will not grant the loan unless the borrower can get two financially responsible persons to sign the note. It would be very difficult to get any credit insurance company to insure a $300 retail debt of this kind for less than 10 per cent, or $30. Certainly this credit insurance has considerable value to the bank or it would not be required. We found from a questionnaire study of two hundred persons in New Jersey, Massachusetts, and Iowa, that these persons were willing to give from $5.00 to $75 in cash rather than become co-signers on a note of $300. The average was $17.

If the bank sends the applicant borrower around to ask his friends for endorsements which are admittedly worth from $5.00 to $75 for insuring the payment of the loan, why not have the borrower go around asking the same friends for money gifts instead? It would be better all around. Then let the borrower get his loan without any co-signers or endorsers and pay the money contributed by his friends as additional interest. It would be substan-

tially the same thing and would not cover up this extra charge which all lenders on co-signer loans get; namely, the equivalent of the money cost of credit insurance on a $300 loan, which, whether it is paid in extra interest or merely by persuading a friend to endorse the note, is worth on the average from $15 to $30 on such a loan.

But we have not used the insurance value of co-signers' endorsements in our present calculations. We do not need to. We have already found that the sacrifice costs to the borrower alone prove our point.

I am strongly of the opinion that no true solution of the personal credit problem can be found by concentrating only on chattel loans, which aggregate only about $300,000,000, when the total amount of current family debts in the United States aggregates more than $10,000,000,000. All kinds of household credit are inseparably bound up together. It is only by considering the entire retail credit system as a whole and by studying each individual component part in its working relation to the other parts and to the rest of the system, that we can arrive at a sound, scientific understanding which will enable us to eliminate the evils in the situation.

R. W. Pitman.—Professor Fisher brings out the fact that theoretically the "$8.00 charged for a $100 loan" by Morris Plan amounts to an interest cost on unpaid balances of 17.3 per cent. He states that our advertising is misleading and that we should tell the public that we charge 17.3 per cent rather than we charge $8.00 for a $100 loan. If he had stated that our advertising was to the effect that a Morris Plan loan costs 8 per cent interest per annum, then his point would be well taken. If he will inspect the bulk of Morris Plan advertising, however, he will find that this statement is never made and the only reason that we tell the public that a $100 loan costs $8.00 is that this statement is plainer to the average borrower than would the statement be that our charge mathematically figures 17.3 per cent.

He would also find that with our statement as to the cost of the loan appears a statement that the loan is repayable in weekly, semi-monthly, or monthly installments over a period of one year. He will also find that frequently Morris Plan banks publish charts showing the face amount of the loan, the amount deducted, the amount to the borrower and the weekly, semi-monthly or monthly payments. We believe we are safe in asserting in this connection that our advertising does not intend to deceive and that it does not deceive.

Moreover, if Professor Fisher had carefully analyzed the earnings of Morris Plan banks and companies and had compared them carefully with the earnings of commercial banks, I am sure that his thought that Morris Plan profits are out of line in ratio to the service rendered would have been more properly tempered. I submit that in discussing this small loan problem, especially concerning the matter of rates, there are three ways of approaching the rate: (1) The actual mathematical cost of the money which we agree is approximately 17.3 per cent; (2) What the borrower pays which, I submit, is $8.00 for a $100 loan repayable in equal installments over a period of one year; (3) What it actually costs the borrower or the $8.00 charge plus what he could make on the money if he deposited it in the same

justify the higher rate. A higher cost for operating capital may justif-

installments required by the Morris Plan bank in a savings account at a commercial bank in order that he might have the funds available in order to discharge the note at maturity. Were he to deposit $2.00 a week for fifty weeks in a savings account paying 3 per cent he would have earned at the end of the year approximately $1.12. This added to the original amount paid for the loan, or $9.12, is what the loan actually costs the borrower.

Professor Fisher makes the point that it is impossible to answer the legitimacy of the rate charge without going into the problem of the extension of credit. He makes the point that a large rate permits certain hazards and that a smaller rate merely confines the granting of credit to a smaller group and states that "it is entirely possible that one company charging 10 per cent can earn as much as another company with a 17 per cent rate which is less careful in the selection of its customers." Since Morris Plan losses over a period of twenty years in all localities and through all sorts of business depressions have been less than 0.2 per cent, we submit the proposition that no greater care could possibly be exercised in the extension of credit without in so doing refusing a lot of good business and declining to extend aid to many worthy applicants. The money cost to an institution borrowing at 6 per cent and maintaining a 20 per cent sustaining balance is 7.2 per cent. The average operating cost for a conservatively managed industrial banking institution is 3.75 per cent. Adding 7.2 per cent, which is the money cost, to the operating cost of 3.75 per cent we get a total of 10.95 per cent, which explodes the theory that a bank charging 10 per cent could make any money whatsoever regardless of its credit policy for the simple reason that it would actually lose $0.95 on each $100 loaned.

We contend that this matter of credit extension is not one which is affected in any manner whatsoever by rate. It is, and should be, the object of every industrial bank or small loan company to lend to as many people as possible where the purpose is constructive and the credit risk is a bankable one. If the purpose is not constructive and the credit risk is not a bankable one, then I submit the proposition that 17 per cent or 42 per cent or 50 per cent is not a sufficient return.

Further in his paper, Professor Fisher discusses the "social desirability" of lending to certain classes. Actual experience in this business has proven that the good borrower or the bad borrower does not come from "certain classes." Morris Plan banks loan money to people in all walks of life, from the common laborer to the banker and to people in all professions, and they have found the bad credit risk just as frequently among the so-called higher class as they have among the so-called lower classes. They have found that the social position of the borrower has no bearing whatsoever on his credit ability, that the losses are not necessarily with the small income classes, and that each individual is a problem in himself. They have found that the rate which they charge is the one which is necessary on loans secured, as the bulk of Morris Plan loans are secured, by two co-makers.

The Russell Sage Foundation has found that 3 per cent a month is a necessary rate for loans secured by the borrower's signature and no co-makers' but a chattel mortgage on his furniture. The difference in security may

justify the higher rate. A higher cost for operating capital may justify the higher rate. We do not believe, however, that the Russell Sage Foundation or those men who are ethically operating small loan businesses are asking this higher rate in order that they may be permitted to gamble with the eccentricities of the bad credit risk.

Following Professor Fisher's discussion further, we agree that the character of this business is such as to require a minimum volume to assure profit. Experience has proven that the small loan business is so saturated with complication and detail that after a certain volume is reached additional volume can only be handled constructively by the building up of an organization which is increasingly expensive in proportion to the volume handled. To explain this further, the operating cost per dollar loaned in the New York Morris Plan Company with an annual volume of forty millions is considerably larger than the operating cost of the St. Joseph Morris Plan Company with a volume of a million and a half. This seems to bear out our contention that volume in the small loan business answers the question of overhead costs only to a certain figure. The question of overhead costs can be more intelligently and effectively answered by intelligent management and cost of operating capital than by any of the elements mentioned by Professor Fisher.

We question whether, as Professor Fisher states, commercial banks have established that they can make these loans profitably at 6 per cent discount. Participation of commercial banks in this business is still an experiment. This is evidenced by the fact that in a number of instances they have increased their rates by adding a small service fee and in one community a large commercial bank purchased a local Morris Plan company in order that it might turn over to it its personal loan department.

Professor Fisher asserts that the solution of this problem is beyond the wisdom of the men engaged in the business. Morris Plan banks have in twenty years succeeded, by a great deal of study and careful operation, in returning a fair rate to their stockholders. In operating their businesses they have attempted to serve the interests of the small borrower, not for a charitable or philanthropic reason, but for the reason that they have realized that they must serve in order to profit. Industrial banking has earned its position in the economic structure of our country and the solution of the problem is to provide more of it under strict and rigid supervision of the state through the enactment of laws which will enable them to operate with a reasonable profit to their stockholders.

E. Greider.—Whether 3.5 per cent paid at the end of each month amounts to 42 per cent or 51 per cent a year (assuming, apparently, that no payments are made on principal) seems to me unimportant.

As Professor Fisher has pointed out, we have no information on which to base an intelligent conclusion as to rates, unless we have located and defined the economic group for whom this type of consumer credit is appropriate. The expense of administering loans to the group is then first determinable, and will set the minimum feasible rate if we expect funds to be forthcoming for that purpose. Whether we allow 2 per cent or 200 per cent,

M. R. Neifeld.—In discussing the small loan problem, I cannot claim the scientific objectivity that Professor Fisher mentions as so desirable.

that group which can be served only at greater expense will fail to command the service. In identifying this group, we must therefore decide how far down the scale we should go to include those to whom such consumer credit can justify itself economically and exclude those for whom its cost (at even higher rates) would be unwarranted.

This can be determined only by experiment, and the experiment is actively going on. Evans Clark estimates a present investment of $1,500,000,000 in the small loan industry, most of the business having been developed in the past fifteen years, at rates varying from 6 per cent to 18 per cent for the small part handled by the credit unions to 30 per cent to 42 per cent for the personal finance companies. This evidences a distinct demand for the service even at the maximum rates stated. Clark also estimates that a further investment of $900,000,000 is required to meet the needs of the group which can be served at these rates. If we experiment further with these varied types of small loan agencies, we may expect a competitive adjustment to shape differing rate levels below the legal maximum for the various groups that can be served by these different methods, at such widely varying costs. Each type of service has been bought and will be bought only so far as an effective demand exists for it. Whether the supplying of that demand will minister to welfare or not is another question altogether.

As soon as we are satisfied that the commodity (small loan credit) is economically detrimental to some classes which are included at existing rates we shall wish to see the maximum rate reduced; should we discover that it is economically serviceable for still lower strata, we would wish to see the maximum rate increased so as to bring them in.

For the present, this industry must be regarded as in an early stage of its development. Let the experiment go on, and let us study the experiment that we may the more intelligently interpret it.

Professor Fisher's suggestion of a minimum capital limitation to insure operating units large enough to avoid excessive overhead seems definitely good and helpful.

Geoffrey May.—Two questions raised in preceding papers show a lack of complete understanding of the differences between the various types of lenders. Banks, credit unions, and building and loan societies are low-rate lenders because they make loans of money deposited with them. Personal finance companies charge higher rates because they can make loans only out of their invested capital. The one exception is the remedial loan societies which are semi-philanthropic institutions. The difference between low rates and high rates is, in part, therefore a difference between a broker's profit and a tradesman's profit.

The last inquiry suggests that experiments should be made as to the proper rate of interest charge. Such experiments have been made constantly since 1884. In their laws regulating small loans the various states have tried different rates. These trial rates formed a partial basis for the rate suggested in the Uniform Small Loan Act. Within the next year the Russell Sage Foundation will publish a volume treating the history of these various legal experiments.

on page 9." Turning to page 9, we find the second of two reasons: "The

M. R. Neifeld.—In discussing the small loan problem, I cannot claim the scientific objectivity that Professor Fisher mentions as so desirable. For the last five years, I have had charge, among other things, of the statistics and research for the Beneficial Industrial Loan Corporation, which today has over three hundred offices in more than twenty states and is doing an annual business of more than sixty million dollars in loans averaging about one hundred fifty dollars.

My first point concerns the 51 per cent, which it is alleged the borrower pays because the interest is paid monthly. This 51 per cent is a formal algebraic result that has as much meaning as the schoolboy proof that two equals one. Whatever the formal result may be, the individual borrower as such pays only 3.5 per cent per month or at the rate of 42 per cent per year.

In considering the rate charged by the Morris Plan type of companies, it is well to know that it takes the average company from four to six years before it can grow to the point of returning 10 per cent on invested capital. The rate charged by the Morris Plan type of companies is insufficient to make any money at all on the pure investment if only the invested capital is used. The possibility of profit arises only when a financial pyramid is built up through the sale of thrift certificates.

Mention was made of the National City Bank, which has made twenty-two million dollars of loans in one year in its personal loan department. It should also be added that National City Bank at the same time stated that no profit was made on these loans and it did not expect to make any profit until it had secured sufficient volume.

Criticism is directed at the business because a certain proportion of the loans are made to repeat customers, as if the making of repetitive loans was the fault of the business. Dr. Ryan's article on "Family Finance in the United States" which appeared in the *Journal of Business* of the University of Chicago last October gives a very fine picture of current family financing in the United States. Dr. Ryan estimates that 97 per cent of the borrowers are in debt before they come to the loan companies and that they only resort to these agencies after they have exhausted all their other resources for credit. Another article that covers a complementary side of the picture appeared under the heading "Personal Finance and the Marginal Borrower" in the *Personal Finance News* of December, 1930. Reference to these articles will indicate that there is a good deal more to the problem of the repeat borrower than the naïve assumption that the loan companies are responsible.

Professor Fisher quoted from the Pace, Gore, and McLaren report that the rate of earnings of the small loan companies in New Jersey was 18.07 per cent. This statement, as it appears in the report, reads as follows: "The rate of earnings of the offices as shown by the analysis heretofore given of the sworn report of those offices to the Commissioner of Banking and Insurance was 18.07 per cent." Immediately above this statement on the same page, there appears in a table, a statement that the percentage of net income to average amount of tangible capital employed is 13.8 per cent. The report goes on to say, "This percentage (18.07) is in contrast to the percentage of 13.8 stated above. The reasons for this difference were stated

on page 9." Turning to page 9, we find the second of two reasons: "The chain licensees were not charged by their home offices and therefore do not report all the general expenses including federal income taxes that were properly chargeable to them." Furthermore, on page 4, the report says, "In addition, the reports were not designed by the Commissioner nor prepared by the licensees to furnish information as to earnings as such." They were designed merely for state supervisory purposes and they cannot be used to determine earnings except by some such adjustment as the firm of accountants indicated in their remarks.

Earl E. Davidson.—As Supervisor of Loan Agencies for the Commonwealth of Massachusetts and as an individual in no way connected with the operation of any loan office, I wish to emphasize several facts.

In Massachusetts full information is obtained in regard to each loan which, so far as I know, is not obtained by any other state. A system of weekly reports is required. These reports show all loans made by the licensed lenders containing the consecutive numbers of the loans, the dates on which the loans are made, the names and addresses of the borrowers, the amount of money given to the borrower, the terms of repayment, the rate of interest, information as to whether the security is recorded or not, and the nature of the security. Similar reports are also required of the licensed lenders showing the details of all loans discharged. These include the number of the loans, date made, date discharged, name of borrower, total amount received by the lender, rate of charge, and any portion of the total amount received by the lender for any other purpose than repayment of principal and interest.

All licensed lenders are required to print upon the borrower's receipt book the following statement: "For information or complaints apply to Supervisor of Loan Agencies, State House, Boston, Massachusetts." The doors of the supervisor's office are always open to the general public for the purpose of giving information or listening to complaints of borrowers.

The policy has also been established to encourage desirable capital by requiring that, if the applicant is a corporation, it shall be a Massachusetts corporation with some Massachusetts directors and Massachusetts capital engaged in the business. The supervisor may license suitable and competent individuals, partnerships, and corporations to engage in the business, but the standard is a matter entirely within the jurisdiction of the supervisor.

The operations of lenders which come under my supervision in Massachusetts may be defined roughly into the following classes: independent licensees, chain offices, Morris Plan companies, companies specially chartered by the legislature, and remedial loan companies. I shall disregard all but the independent and chain offices as well as Morris Plan companies, as these three groups comprise the bulk of the licensed business in Massachusetts.

Eighty-two independent licensed loan offices made 37,283 loans of $300 and under with an employed capital of $4,354,265.44 at an average annual expense per account of $19.10 with a net profit of 8.48 per cent. There was legal action taken to enforce payment in 199 cases.

For the same period 71 chain licensees made 70,014 loans, employing a capital of $11,303,127.00 at an average annual expense per account of

$25.95, at a net profit of 13.5 per cent. There was legal action in 287 cases.

Twenty-two Morris Plan companies made 46,325 loans employing a capital of $8,245,403.74 at an annual average cost per account of $14.58 at a net loss of 1.1 per cent. There were 733 cases where legal action was necessary. Ten of these Morris Plan companies operated at a small net profit, but the losses of the other 10 were heavy enough to show the net loss of 1.1 per cent, considerably to the surprise of many Morris Plan operators who had not realized to just what percentage of loss the licensed small loans business of these offices had been conducted.

Dwight L. Hoopingarner.—There are several factors which, it seems to me, require further emphasis from the standpoint of impartial analysis of the small loan business.

The first of these factors has to do with the constructive economic purposes for which the substantial majority of these loans are made. Last summer, as an official of the American Construction Council, which is an impartial body representing all elements affecting the construction industry nationally, including the public, I made a study of this subject. This study, based on existing data secured from various sources such as Dr. Willford I. King's original study of approximately 25,000 small loans in the state of New Jersey, a survey made by the State Banking Commissioner in Wisconsin in 1928, an analysis of small loans in Virginia, and other studies, brought out the rather amazing fact that approximately one-third of all these loans have to do directly and immediately with the financing and the structure and equipment of the home and its maintenance and servicing; that is, for such current expenses as payments on home and home site, taxes, rent, repairs on home, coal, house furnishings, moving expenses, and household miscellaneous. In Wisconsin, the figures of the State Banking Commissioner showed that approximately one-fifteenth of all loans in that state for 1928 went for taxes alone.

The second factor has to do with a question just raised in this discussion; namely, the suggestion that this business might be placed in the status of a public utility. I wish to present two obvious considerations which would seem to refute conclusively both the theory and the practice of such a possibility.

A public utility either by legislative fiat or, in rare cases perhaps, by economic force is a monopoly. This type of monopoly renders service having to do with absolute necessities of life, such as the furnishing of gas, water, light, and power. There is a very definite and valid distinction between services of this character that naturally flow from a single distributing agency and a desirable and essential but not a single source service to the community such as the type of credit rendered by the small loan business. It is neither sound economics nor desirable public policy, I submit, to place a major credit function of the community or state in the position of a monopoly. It is desirable, of course, for such a widespread service to the community as that rendered by the small loan business to be conducted under proper state regulation and supervision, and for that the responsible small loan companies stand foursquare.

Again, while the small loan business does serve many families for necessitous purposes, the great proportion of loans, as already pointed out, go for constructive purposes over and above the merely necessitous class and as such form an essential part of the general credit structure of the community.

It is a false assumption, therefore, to predicate this business solely or even dominantly upon service to necessitous borrowers, which is an underlying premise for any claim that it should be placed in the class of a utility.

The general point of the percentage rate of interest has been referred to by a previous speaker. Personally I think it is very difficult to calculate any percentage rate of interest that gives a fair impression of the charges for this service, and that it would be much better to refer to these charges in terms of actual dollars paid by the borrower for a given sized loan for a given period of time, as for example a $50 loan for ten months at 3.5 per cent per month costs $9.63 However, it would seem to be desirable, for the sake of scientific accuracy, to mention, when referring to a percentage charge, that the loans are always on a monthly basis with the right of prepayment at any time and that the rate is a monthly rate.

In connection with this matter of the so-called interest charges as determined by the Uniform Small Loan Law, I desire to present an opinion by Professor Carroll W. Doten of the Massachusetts Institute of Technology, who has authorized me to read the following statement from him dated January 20, 1930:

> You ask me to give you my opinion concerning a statement made by Professor Clyde Olin Fisher in an article in the June, 1929, number of the *American Economic Review,* entitled "Small Loans Problem: Connecticut Experience." This statement appears as a footnote on page 183 and is as follows: "Mathematically, a loan at 3.5 per cent monthly, if the interest is paid monthly, amounts to an annual interest charge of 51 per cent rather than of the 42 per cent mentioned in the law."
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> Such a statement seems to me most unfortunate, to say the least, in an article which purports to be scientific, for it is bound to mislead many readers who do not stop to analyze it and to find what unwarranted assumptions underlie the "mathematics" of it.
>
> As a matter of fact, the statement in the law is correct as any one who can multiply three and one-half by twelve can see at a glance, for the borrower of $100 would pay $42 in twelve monthly installments of $3.50 each for the service rendered by this loan if he were to retain it for an entire year which, of course, he does not do, and he pays interest only on the unpaid monthly balance.
>
> "Mathematically" this amount might be shown to be either too little or too much, depending upon what assumptions the mathematician might make as a basis for his computations.
>
> Professor Fisher makes two fundamental assumptions which are both contrary to the facts of the case and at variance with financial and business practice. He assumes, first, that the entire charge for these loans is interest and, second, that interest is not due and payable until the end of the year. He knows, as everybody else does, who has any acquaintance with the small loan business, that only a minor part of this monthly payment made by the borrower is really interest. He must also know that interest payable only at the end of the year is the rather rare exception nowadays. Banks charge and collect discount and interest at the time the loan is made, or, if it is a demand or "call" loan, at frequent intervals during the life of the loan.
>
> It is unfortunate and confusing that the term "interest" has been used in the statutes and in the discussion of the small loans business.

The essence of this business is an emergency service to meet a critical situation or a constructive need in the borrower's life, rendered at relatively heavy expense by an organization which is manned and equipped to perform it promptly at considerable risk and substantial cost. It may be futile to try to determine exactly how much of the charge for this service is interest on the money involved in the transaction, but it is obviously absurd for an economist to regard it all as interest and to count the monthly payments as partial payments of principal instead of what they really are—convenient installments of a total service charge to the borrower, most of which may properly be regarded as due and payable at the time he received the loan and not at the end of a year or even of a month.

In fact, these monthly payments, like all installment business, are in and of themselves a burden rather than a benefit or source of profit to the creditor. It involves labor and expense to make twelve collections in a year instead of one or two, and the choice of this expensive method of payment is dictated by the incompetence or necessity of the buyer or borrower to secure needed credit otherwise rather than by the profit-making desire of the creditor.

As a matter of fact the borrower does not retain the loan for an entire year but pays it back in equal monthly installments with interest only on the unpaid balance each month, and therefore it does not cost the borrower 42 per cent of the initial face of the loan and hence not $42 for a $100 loan, but only the 3.5 per cent on the unpaid monthly balance at the end of each monthly period at which time he also pays the proportionate installment on the principal which in turn reduces the interest cost in just that proportion for the next monthly payment.

Franklin W. Ryan.—There is one problem which has not been discussed either in this meeting or in any of the recent books on the subject of personal finance. This is the problem of the variations in earnings of loan companies from stage to stage of the business cycle. The recent statutory rate reduction from 3 per cent a month to 1.5 per cent a month in New Jersey was partly based on the assumption that all personal finance companies could make just as good profits in depression as in prosperity. But this is not true, and there are plenty of available figures to demonstrate it. Colonel Hodson, the former president of the Beneficial Loan Society, once told me that during the 1921 business depression there were several loan offices in that organization whose expenses and losses were so high that they had no profits at all. During the present depression, the same causes are at work. Millions of men are out of work and cannot make their payments on time, which increases the number of our slow accounts and doubles the cost of collections. Needless to say, the same causes operate to increase the amount of losses from uncollectible loans. The 1929-30 depression will cause the companies in this business to charge off at least $10,000,000. The notion, which we often hear naïvely expressed by theorists, to the effect that a business depression helps our business, is rank foolishness.

If we accept the principle of the $300 maximum loan, the 3.5 per cent a month rate, which has been tried out successfully in a score of states, is the best solution. But if we start building up a graduated rate system, the companies stop making loans under $50 and finally the most significant result is that they thus have a tendency to get away from the original principle of the $300 maximum loan. There are some, of course, who see no objection to this result, but for those who are committed to the principle of the $300 maximum loan, there is serious danger in the graduated rate system.

Clyde Olin Fisher.—I shall be able to refer to only a few of the points

which I should like to discuss. Mr. Pitman assumes that the operators are the ones best qualified to determine correct rates of interest. This I deny emphatically. Such an arrangement makes the lender the judge of his own case. Under our present system of government the members of the legislature are the ones vested with the responsibility for determining such social policies. Mr. Pitman emphasizes the fact that Morris Plan banks charge 8 per cent interest. It is true that they charge 8 per cent but the period of the loan is less than one-half a year. Mathematically, there is no escape from the conclusion which I presented in my original paper that the interest rate in these cases is 18.77 per cent annually. My criticism is that the lenders have concealed the true annual rate of interest by placing emphasis upon the amount of money deducted in advance in making these loans.

In view of Dr. Ryan's statement that he agrees with most of my "fundamental beliefs," I find it difficult to reply to his criticism of my paper. This agreement is to my mind a significant expression on the part of an accredited representative of the small loan people and I welcome it as a good omen for legislative improvement in the future. An excursion such as Dr. Ryan has made into the sacrifices of borrowers is to me an interesting intellectual exercise but entirely futile as a means of arriving at a fair rate of interest. These "opportunity costs" or whatever one may choose to call them are no doubt significant to the borrower but they apply to loans made by small loan companies as well as to those made through other channels.

Who knows but that Dr. Ryan may be correct in his insistence that people who pay the same money price for a commodity pay in reality different subjective prices? All we can do at present is to strike a general average, however unsatisfactory, and hope that this will fit most cases fairly well although it fits no one exactly.

So far I have heard nothing to weaken my faith in the validity of my fundamental thesis that the rate of interest determines the least common denominator among borrowers. Further, once having determined who should have access to these loans, the rate can be reduced appreciably if proper conditions of lending are provided. Free competition and laissez faire necessitate a higher rate of interest as a means of insuring capital a fair return. My critics have also failed to show that the rate of interest should not be graduated with the size of the loan and they have neglected to offer any remedy for the practice of continuous loans at high rates of interest, a practice which restricts consumer purchasing power on the part of those least able to suffer a diminution in their effective incomes.

Louis N. Robinson.—It may be of interest to those who have listened to the discussion to know that representatives of the American Association of Personal Finance Companies have been urging the American Economic Association for two years or more to devote a session to the subject of small loans. As one of those who urged this plan, I was asked to prepare a paper. It was natural also to suggest that Professor Fisher, almost the one and only independent critic of the small loan business, should be asked to take part. Those of us who have immediate contact with this business know that there are many unsolved problems in it. All this development has taken

place within the last sixteen years, a fact which accounts for the existence of some of the problems which have been discussed here today. I was interested in the remarks made on credit unions. The thing that impresses those who have studied the problem of mass credit is the number of kinds of agencies which supply it. It will be found that there are good reasons for the existence of these different agencies. There is some competition among them but in the main they render a different service or meet a different need or function under different circumstances. Their rates differ, depending on the cost of doing business and on the conditions under which they operate. It would be folly to assume that one type of agency could do the work of all the others. As a representative of one of the larger companies engaged in the business, I can assure you that we welcome the effort of economists to understand what is going on in this part of the economic field of supplying credit to those without bank connections.

Burr Blackburn.—Speaking as the director of research of the Household Finance Corporation, one of the largest organizations in the personal finance field, I am impressed with the fact that Doctor Fisher's concrete recommendations for improving the small loan situation meet with our full approval. In fact, we have spent a good deal of money and effort in research in an attempt to arrive at a method of graduating the rate on small loans. It is not so easy since no legislature would permit a rate high enough on the very small loans to take care of the cost of making them. Thus far we have been content with our own policy of graduating the rate by cutting the cost on the larger loans, attracting this type of loan to ourselves and thus forcing our competitors to content themselves with the smaller loans. However, with the aid of some of the best accountants and efficiency engineers in the country, we have developed a plan of graduation which will probably be used in the future.

We also agreed with Doctor Fisher's arguments in favor of limiting the licensees in a community to those with sufficient assets and not to exceed the actual number needed to supply the community. As a matter of fact, such provisions are now included in the new draft of the Uniform Small Loan Law.

Doctor Fisher's third point, that we should determine just what strata of the public should be permitted to borrow and fix a rate that would supply such credit, has already been answered.

The place to discover whether or not these people who are patrons of small loan companies should borrow is in the loan offices and in their homes; not in the professor's study at the university.

There is no legislative protection possible against lending to the wrong people. The necessity that the lender collect the account, both principal and interest, is one safeguard. The necessity that the lender maintain the friendship of his customer is another. The chief safeguard in this instance after all must rest upon the education of the general public as in the use of other valuable but dangerous facilities such as poisons, automobiles, etc. It is possible to educate families to a sensible and curative use of borrowing to cure and prevent economic ills just as it has been possible to educate them in the methods of curing and preventing physical illness.

THE SOCIAL AND ECONOMIC ASPECTS OF CHAIN STORES

FRED A. RUSSELL, *Chairman*

R. W. LYONS.—Any intelligent discussion of the development of chain stores in America must recognize that there are two major viewpoints on every economic problem—that of the individual business and that of society as a whole. Since it is of genuine importance that we be able to assess correctly the social as well as the economic values of any great movement, I shall devote this discussion not only to the confusing and exceedingly prosperous commerce of the chain stores but to its underlying social effect as well.

Because the chain store has seemed to be something different, those unfamiliar with its origin and history have assumed it to be something new. The fact is, however, that five hundred years ago the Fugger family of Augsburg had established in Europe an empire of counting houses and merchandise depots, operated and maintained over a wide territory, upon a plan containing the essentials of the chain store idea. More than one hundred years ago the far-flung operations of the Hudson's Bay Company in America were conducted through many banks and trading posts functioning upon principles which were essentially those of the chain store.

Obviously, then, the chain store idea itself is not new. The only thing really new about the chain store must be found in the conditions which surround our new civilization, and it must be recognized that the post-war period in which the great chain store growth has occurred constitutes, in certain of its economic aspects, an essentially new period. This period has projected the chain store as inescapably as the closing years of the nineteenth century projected the world-wide revolution in industrial and manufacturing methods.

We are confronted today with forces and circumstances which have made inevitable this merchandising instrumentality. These forces seem to me to be as follows: (1) The concentration of sales areas arising out of the movement of our people from the country to the cities; (2) the facilitation of the cash and carry mechanism by the introduction of the automobile; (3) the demand for the reduction of the steadily rising costs of the necessities of life, which have mounted regardless of the manufacturers' efficiency in fabricating more cheaply than at any time in the history of the world; (4) installment buying, with its upward revision of the standards of living through wider distribution of luxuries, and the consequent necessity for more careful budgeting of family expenses in the field of necessities.

These are the epic movements from which the chain store was born. Whether we like the chain store or not, the history of economic development seems to indicate that it is here to stay. Thus we may justifiably search for the meaning of its presence and its success. In this connection, I would like you to consider three essential propositions: (1) What is a chain store? (2) What is the function of a chain store? (3) Why have chain stores succeeded? The answer to question number one is that the chain store is an instrumentality for retailing. The answer to question number two is that the function of the chain store is the function of every retailing establishment in

existence; i.e., to perform a public service by the efficient distribution of merchandising to consumers. In fulfilling this function the chain store has been obliged to recognize every economic law that affects any retail merchant. The success of any retail enterprise, chain or independent, is a measurable factor which may be ascertained with reasonable certainty.

Economists generally agree that there are seven essentials to successful retailing. With a thorough study and energetic application of these essential principles, retailing success is assured alike to the chain store merchant and to the independent merchant. These factors are: (1) A retail store must be well located—must have ready access to consumers; (2) the store must be attractive in its exterior and interior design and must constitute a pleasant trading place for its consumers; (3) it must maintain a steady supply of adequate stocks of good and salable merchandise; (4) the factor of service must be carefully weighed and measured in relation to the needs and demands of customers and the requirements of competition; (5) the relations of employees to customers must be carefully studied and intelligently disciplined and developed; (6) good management, which suggests the proper correlation and direction of every department of the business, must be present; (7) prices must be reasonable.

Perhaps you will ask, if these factors have always been present and have a fixed relation to retailing success, "What in particular has the chain store added to this science that the retailing of past generations and older methods failed to provide?"

This brings me to my third proposition: "Why have chain stores succeeded?" Just as the secret of efficient production is to be found in standardized articles produced in large volume and sold at small unit profit, so the secret of distribution is to be found at the same source. Mass production and mass distribution have gone far in eliminating waste by reducing processes to their simplest forms. This in the case of chain stores takes the form of standardized equipment, standard stocks of merchandise, and standard business procedure and records. Chain stores have been able to systematize employee training, location of stores, selling methods, and advertising. They have been able to economize through intelligent buying, rapid turnover and elimination of unnecessary service. The chain store, in other words, has applied rational scientific procedure to the whole field of distribution.

In spite of the chain store reputation for general operating efficiency, there are still to be found both business men and economists who believe that the only competitive advantage which chain stores enjoy is their great buying power. Nothing could be more illusory. With the nation-wide development of the so-called voluntary chain, it is an accepted fact that the individual retailer buys, for the most part, on a parity with the chain store. But even if there were no such thing as a voluntary chain or co-operative buying plan it would still be a fact that cost of merchandise or buying power would play only a fractional part in the final success of any retail establishment.

Nothing could emphasize this better than one illustration from the recent Louisville Grocery Survey, conducted by the United States Department of Commerce. Two particular merchants provide the example. One main-

tained an inventory of $3,500 and did an annual business of $25,000. He turned his merchandise seven times per year. The other maintained an inventory of $3,000 and did an annual business of $115,000. This merchant turned his stock thirty-seven times per year. Thus he could earn $3,450 net per year on a 3 per cent margin above operating expenses, while the first merchant could earn that amount net only by a margin above operating expenses of 14 per cent plus. Obviously, then, if the first merchant had a fantastic buying advantage of 10 per cent the second merchant would more than eliminate it by his efficiency in securing rapid turnover.

It is in just such areas as this that the chain store makes its greatest economic contribution. Unfortunately, the public seldom understands the economy which results from speeding up the process of getting merchandise from the manufacturer to the consumer. We can only estimate how much the chain stores save in this way by releasing capital for other uses, by lower interest charges, and by smaller capital outlay for warehousing and handling.

It seems to me that only one question remains to be answered in order to determine whether the chain stores are making a contribution which justifies their economic existence; i.e., do the chain stores save money for the consumer? The best answer to this question is to be found in studies recently conducted by professors of economics in three different universities. Associate Professor Edgar Z. Palmer, of the University of Kentucky, upon the basis of a survey recently conducted by members of his classes under his direction, has determined that the chain grocery stores in Lexington, Kentucky, save the consuming public 14.3 per cent as against prices paid in competing retail outlets. Professor Malcolm D. Taylor, of the University of North Carolina, finds that in Durham, North Carolina, a city of forty-eight thousand population, chain grocery store prices average 13.79 per cent below those of competing retailers. A still more recent study by Professor James L. Palmer, Professor of Marketing of the University of Chicago, reveals that in the city of Chicago chain grocery store prices are from 12 to 15 per cent less than those of competing retail outlets. It seems only fair, in the face of the mounting volume of such testimony, that we should conclude that the chain stores are making an important economic contribution, and that they have unquestionably justified their existence from a purely economic point of view.

The other side of the question remains to be answered. Is the chain store, in spite of its economic contribution, a social menace? The most frequent charge against the chain stores is that they are rapidly driving the independent retail merchant out of business and threatening the country with a resulting monopoly. The facts in this connection are so conclusive as to lift the matter above the realm of controversy. The records of Dun and Bradstreet's indicate that the rate of mortality among retailers is no higher today than it was forty years ago, when there was practically no such thing as a chain store. The study recently made by the National Chain Store Association confirms this conclusion.

Following the very important Louisville survey of the grocery industry through the United States Department of Commerce, it was our belief that

we could shed some interesting light on this question by following the government's example and examining the Louisville area. We consequently employed Dr. Paul C. Olsen, of the University of Pennsylvania, to develop these facts for us. It seemed to us that we could produce a definite answer to this charge by establishing the following facts: (1) How many new grocery merchants came into business each year in Louisville in the days before there were any chain stores? (2) How many individual grocery merchants failed each year in the days before there was any appreciable chain store development? (3) How many new individual merchants are coming into business in the Louisville area each year under present conditions of highly organized chain store development? (4) How many individual merchants are going out of business each year during this period of highly developed chain store activity?

If the above mentioned charge against the chain stores is true, it would seem obvious that individual merchants must be entering the grocery field less rapidly or freely than they did before the coming of chain stores, and that they must be going out of business more rapidly because of the pressure exerted by chain store competition. In order to make our study as simple and yet as concrete as possible, we chose to analyze the period from 1891 to 1899 inclusive, and the period from 1921 to 1929, inclusive.

If the number of businesses started is a measure of the attractiveness and opportunity in a given field to those who contemplate entering it, then the period from 1921 to 1929 was more attractive for the individual retail groceryman than the period from 1891 to 1899. The percentage of individual grocery merchants starting in business each year from 1921 to 1929 was a 25 per cent yearly average. The percentage of individual grocery merchants starting in business each year from 1891 to 1899 shows a 23 per cent average.

If the number of individual businesses failing each year is a measure of the business hazards or competitive problems of that year, then it would be difficult to show that the chain stores have had any appreciable influence on the mortality of the grocery industry. An average of 23 per cent of the individual grocery merchants in Louisville went out of business each year from 1891 to 1899. An average of 24 per cent of the individual grocery merchants in Louisville went out of business each year from 1921 to 1929.

In considering these figures, it must be remembered that in all the years from 1891 to 1899, not more than 16 grocery stores were in operation in Louisville which might properly have been catalogued as chain stores. The largest operating company during those years controlled only 4 stores. Note the contrast with the years 1921 to 1929 when chain stores increased from 57 to 227. Most astonishing of all, note that in the 1891-99 period the number of retail grocery failures equalled 100 per cent of the number of new entries into that business. In the 1921-29 period of greatest chain store development the number of retail grocery failures equalled only 96 per cent of the new entries into that business.

Louisville is a typical American community and the results of our Louisville study are believed to be typical of the results which a similar study would reveal in the average American community.

The accusation is extensively made that the chain stores are drying up the springs of opportunity for the young men of our land, and that the only way to keep this opportunity open is to protect the existence of the individual retailer. I would like to point out in this connection that since the beginning of intelligent commercial statistics the records show that nine out of ten individual retailers fail in each decade. I would like to point out further that it is not necessary for a young man to own his own bank in order to find his opportunity in the banking field. A youth need not stifle his ambition for a career in the railroad business because he cannot buy a railroad for himself. Neither must he despair of a career in the manufacturing field because of his inability to buy a huge establishment of his own.

In all of the major fields of enterprise in America there is unlimited opportunity for the youth of character and ability. There is, furthermore, stability in corporate employment that is difficult to attain in the small, individually operated enterprise. It is only fair to consider the record of employment in chain stores during this year of general economic depression when its social value is being weighed. While general employment has materially declined, and while the average wage has declined, yet a recent survey of the fifty leading chain store companies shows a substantial increase in the number of regular employees and an increase of approximately 10 per cent in pay rolls.

There is a common delusion that the chain stores have found some way by which to escape from their fair share of local taxation, and the truth about this matter must also be considered in any correct appraisal of the social values of the chain store. Let me emphasize first of all that the power of taxation inheres in the government, state or national, which is common to the chain store and to the independent merchant alike. The assessment of property values is a duty defined by law, and under which the local assessor is charged with the mandatory duty of treating all citizens and all business alike. If, therefore, the chain stores are escaping any part of their full burden of taxation, that escape must be based upon the failure of the local tax authorities to perform their functions and upon fraud, which the government should prosecute without hesitation.

In the development of every great commercial or industrial enterprise there comes, sooner or later, the question of whether or not a monopoly is threatened. Let those who fear that the chain stores may soon institute a gigantic monopoly, with vast, powerful, potential harm, remember that there are in this nation today more than six thousand individual chain store companies operating under separate ownership and management, each in competition with the others in its field. Under such circumstances, any suggestion of monopoly is fantastic and visionary.

In bringing this discussion to a close, I cannot avoid mention of one of the most difficult and perplexing problems which confronts the chain store. It is the problem of determining its fair share of responsibility for charitable and civic enterprises in the various communities where it does business. The leading chain stores of America recently adopted the following resolution in this connection: (1) We recommend the widest extension of the established

policy of many chain store companies in setting aside and maintaining a definite budget for civic and charitable work of recognized merit. (2) We further recommend that local employees be given the widest opportunities and encouragement for active personal participation in all recognized community activities, to the end that they will merit recognition as good citizens as well as good merchants. (3) We further recommend that in so far as possible, the authority and the responsibility for making civic and charitable contributions be vested in the local store manager, or such other official as may have the closest and most important contact in each community. (4) That wherever possible, such contributions be made through organized and established administrative bodies, such as the community chest associations, or chambers of commerce.

The president of the National Association of Commercial Organization Secretaries recently reported an increase in the subscriptions from chain store companies of more than $300,000. The chain store practice in civic matters may well be imperfect as yet, but I have absolute confidence that the chain stores are making progress in this matter.

As a last word let me remind you again that the chain store is an instrumentality for retailing. The final and inescapable problem in connection with retailing is: what instrumentalities and what methods are calculated to render the best service to the consuming public? It is well recognized that nobody is doing a perfect job in distribution. General progress is being made, but wasteful processes exact a huge toll annually. The consumer bears this waste, and bears it at a time when overwhelming demands are being made upon the purchasing power of the consumer. In the fifty years from 1870 to 1920 the costs of getting merchandise from producer to consumer increased almost 300 per cent. If such rising costs continue we shall soon find ourselves employing more people to sell, advertise, transport, and deliver merchandise than we employ to produce it. I am among those students who believe that such a condition presents social as well as economic problems, and I believe that the chain store, in helping to reduce the costs of distribution, is contributing to the continuity of our social order.

S. M. Flickinger.—I think the reason the Flickinger Company Cooperative Organization has succeeded is because there was a real desire to share earnings with the workers and to build them as permanently as possible into the organization.

The origin of the Flickinger Company was a retail grocery store which was developed into a wholesale business, the retail department being dropped in 1902. The wholesale business at that time was established with a capital of $16,000. About two years later it was incorporated and some employees taken into the firm.

In 1911 or 1912 another corporation was organized and started in the wholesale grocery business in Jamestown, New York, and a few years after there was a merger between the Jamestown and Buffalo organizations; and about that time another wholesale house was started in Rochester. During this period, the company was reorganized, taking in more employees and creating more capital.

In 1917, owing to the inroads of chain stores, the company started a chain of stores of its own. The reason for this move was to maintain its wholesale houses. It formed a separate organization for the chain stores and they purchased all of their merchandise from the Flickinger Company's wholesale houses.

The retail organization was a success from the start. The store managers were paid a salary and a bonus of 1 per cent on sales. We soon found that this system produced sales but in a great many instances did not produce profits. We then conceived the idea of paying our managers a weekly salary and 30 per cent of the net profits of the store. This plan worked very well, but we noted that some of our good men left the organization because they were able to go into other lines of endeavor and earn more money than they could earn in their store, and this loss of managers produced and established the co-operative system that we are using today.

In 1922 we set up what is known as the Red and White system, which is a voluntary chain. Our company in that year still had a wholesale business although we operated a chain of stores. Our business was divided into two departments—wholesale and chain store—and our wholesale department sold merchandise to our chain stores at a profit.

We saw that if we could eliminate the selling expense, we could sell a select group of our wholesale customers, who were good pay and did a good volume of business, on the same basis as we did our own chain stores. We further saw that if these stores were uniform in set-up and were linked together by a common name, they could enjoy the same prestige with the public as a chain of stores. The "Red and White Chain Stores" was selected as the name, and that was the start of the Red and White Voluntary Chain. Other wholesalers became interested and were given the rights to use the name and system in their respective territories gratis.

The principal difference between Red and White and other voluntary chains is stronger control and no royalties. All the Red and White retailer contributes, if he contributes anything, is to an advertising fund, which is practically in the hands of the retail organization itself; but the retailer is required to purchase all of his supplies known as "dry and package" groceries from the wholesale house.

The retailer draws on the wholesaler as he needs his merchandise, and through that method does not have to spend his time entertaining salesmen, but can devote his entire time to selling, which of course includes displays and the general appearance, etc., of his store.

Red and White retailers are not allowed to buy from specialty men.

The Red and White plan in many cases cuts the retailer's merchandise stock in half.

As I have already stated, the Red and White Corporation or jobbers do not exact any royalties, but the Red and White Corporation runs a merchandise brokerage office. It owns the Red and White and Blue and White brands, which cover nearly the whole package grocery line. In fact, it is considered the most complete line in this country.

The Corporation has a merchandise department, and orders received for

merchandise from the Red and White wholesalers are placed by this department with the manufacturer. The merchandise is shipped and billed direct. The brokerage is paid to the Red and White Corporation and produces their income. All profits left after expenses are paid are pro-rated back to the wholesalers on the purchases they have made through the brokerage office.

The organization is doing some national advertising in *Good Housekeeping*. There have been fifty-six different products submitted to them and they have passed them all; there were none rejected.

Each wholesaler and retailer is given control of these brands for a certain district, and sales run into large volume.

About a year ago, the manufacturers who packed Red and White products formed an organization, calling it the Red and White Manufacturers' Association, to co-ordinate and work with the wholesale organization. They see wonderful possibilities in the Red and White movement, and we are all working to the end of so complete a co-ordination that we can really do a better job of distribution of food products than the average chain store can do.

After considerable experimenting, we concluded to adopt the co-operative system we are using today with our own stores. In that plan we really take the manager into partnership. In most cases we put in two-thirds of the capital and the manager one-third. We put the capital in the bank subject to the manager's check. We buy our stock, fixtures, etc., and these are paid for from the funds, the balance being used for operating purposes.

The store is run under the Flickinger Company or Red and White name, but the customers or townspeople feel that the manager controls the store; at least we want them to feel this way.

We have a simple report that the manager fills out at the end of each week and mails to headquarters, together with all supporting vouchers, etc.

Our office runs the books, and every sixty or ninety days an inventory is taken and the books pertaining to this particular store closed, which operation shows the actual profit or loss. If the store has made a profit, checks are then drawn for same.

The lease is in the Flickinger Company's name, and the stock and fixtures belong to the company. The manager's interest in the store is represented by a trust certificate, and is tied up with a contract, stating on what basis the store is to be operated.

The profits are divided as follows: The manager is required to do all the work, and if he holds a third interest he receives 75 per cent of the net earnings of the store; should he hold two-thirds interest he would draw 80 per cent.

This plan works very successfully. We have one man in Pennsylvania who this year will make over $10,000. This plan of operation produces a very much stronger organization, and it has enabled the Flickinger Company to cut their expenses so that their profits are just as satisfactory as they were under the other plan that I have mentioned. Today we are holding all of our good men.

The question is asked, what are the comparative advantages of the corporation owned chain store and the voluntary chain. The corporation chain,

of course, has more direct control, quicker and more direct action, and, in some cases, possibly greater purchasing power. They are probably able to collect more money from manufacturers for advertising; while the voluntary chain has the advantage of ownership and personality that money cannot buy.

They have a low cost of supervision, which usually costs the chain stores from 2 to 2.5 per cent. They are usually in a position to get cheaper rent than the chain stores, as all owners of property get the last dollar they can from chain store organizations.

One of the disadvantages of the chain stores is the difficulty they have in keeping their best men, for many of them, after they learn the business, leave to engage in business for themselves. To my mind the chain stores' weakest point is their organization. In all large organizations their system is necessarily very rigid, and it takes the form of the system used in the army, which does not tend to appeal to or develop the best side of the store manager; and any system that does not accomplish this, will, in my opinion, not succeed in the long run.

I believe one of the reasons why co-operation does not grow faster, is that people are not frank enough. They are afraid to discuss all matters with interested parties. The basic foundation on which co-operation rests is confidence, and we all know that when the cards go down and are spread on the table it inspires confidence.

The reason Red and White has grown without any particular effort is that from the start we of the Flickinger Company were willing to lay our cards down. We are always willing that the manufacturer or the retailer shall know what our cost of operations is and what our profits are. The tax gatherer and consumer can know any part of our business that they have a right to know, because we feel we can justify every one of our acts.

The private brand question is becoming a serious one to the manufacturer of advertised products, as prices are so demoralized that none of the distributors receive profit enough to pay for handling, and they naturally try to sell as little of these products as possible and therefore endeavor to establish brands that are not advertised, or what are known as private brands.

Probably the manufacturer of advertised products is more to blame than anyone else for the position he finds himself in, for it has been generally understood that in many instances the manufacturer has stated that he was not interested in the distributor, but only in the consumer.

It has appeared to us that many manufacturers felt that, if the distributor would pass his merchandise along without profit to the consumer, the price would be very low, and the manufacturer's heavy advertising would make it practically impossible for any competition to get much of a start on this manufacturer's particular line. If so, then today he is finding that his judgment was wrong. There are plenty of manufacturers of food products who can manufacture or pack just as good merchandise as the advertising packers can, and in many cases do the job much cheaper and better. This is the reason the Red and White Corporation established their trade-marks: first, to be able to get a fair profit for the distributors; second, to maintain the small packer as a competitor; and, third, to save money for the consumer.

The Red and White Corporation has over three hundred items under these trade-marks, and will compare quality with any advertised line. I am positive that we will not suffer in comparison on any article, and on many our quality would be superior. As to price, in no way are our prices higher than the advertised products, and in most cases very much lower.

There is a certain manufacturer—one of the heavy national advertisers—who is selling us the same products under the Red and White trade-mark that he is selling under his advertised brand, and he is naming a price to us of 20 per cent less than that for which he sells his own product to the wholesaler or chain store trade, and the Red and White organization is passing his product on to the consumer at the prices he charges the wholesaler or chain store for his own brand.

Perhaps there is some doubt in your mind as to the statements I have made as to merchandise, but I think I can prove them, or at least show you that they are possible.

I read from a financial statement issued by General Foods:

> During the nine months ending September 30, the cost of manufacturing after allowing $1,115,355 for depreciation was equivalent to 49.54 per cent of the net sales price. Expenses of selling, distributing and administration were 31.91 per cent and net profit was 16.92 per cent. The small discrepancy between the total of these figures and 100 per cent is accounted for by an item of other incomes.

Now, they are not quoting retail figures; they are using the price that they get from the wholesaler or chain store merchant, and their statement shows the cost of their products to be less than one-half of what they receive for them. Now, other manufacturers can produce this same merchandise just as cheaply as General Foods can. We will take 50 per cent as their actual cost of production; to that we will add 10 per cent for profit for the manufacturer, another 10 per cent for the wholesaler, and another 20 per cent for the retailer. You still have 10 per cent left for the consumer before you reach the price which General Foods charge the wholesaler or chain store merchant, and to this, if you add another 20 per cent for distribution, you would find that the consumer is paying 30 per cent more than he would for a private brand of the same merchandise.

I believe you can readily see the great advantage the grocer has as a member of the Red and White organization, in having exclusive rights to the Red and White organization trade-marks for distribution and also having expert people buy all of his merchandise for him in the dry grocery or package line. He also has the advice of a trained man as to display, arrangement of store, etc., and there is also available to him the advice of the men higher up in the organization should he wish for it.

Among those taking part in the discussion following these papers were: Dean C. E. Griffin of the University of Michigan; V. H. Pelz, American Institute of Food Distribution; Professor Hugh Agnew, New York University; Professor Leverett Lyon, Brookings Institute; Professor McKenzie Stevens, Louisiana State University; Professor E. D. McGarry, University of Buffalo.

RUSSIAN ECONOMIC SITUATION

George E. Putnam, *Chairman*

Susan M. Kingsbury.—Inasmuch as Russian life in the cities centers in the factory, I am undertaking to report on the factory and its functioning from within, and I am not concerned with questions of approval or disapproval of the present system of government. Let us enter one section of "The Free Labor" Woolen Mill in Moscow. In appearance the factory is much like any old American factory. It is old; the floors are old; the machinery and benches are crowded; the machines antedate 1914, some of them even 1890. In this section the window space is small; the ventilation is practically negligible; the seating is execrable, as indeed it often is; and the lavatories and cloak rooms are ill equipped. While, generally speaking, no filth is to be seen, the sanitary provisions are not clean; the floors are not too clean. On the whole, it is bad, but I have seen factories in this country that are just as bad. Factories that are worse in Russia are being torn down or will be destroyed.

In another section of "The Free Labor" Mill the walls have been practically knocked out. The windows that have been inserted are large and very clean. The light is good. Where the window lighting is not sufficient, excellent electric lighting is provided, either by indirect lighting or well-shaded lights. An entirely new system of mechanical ventilation and new machines, most of them from the United States but some from Germany, have been installed. The general set-up is still crowded; the building is still old and unattractive.

The third section of the same factory is entirely new. It follows the Russian system of hip-roof lighting and is handsome. Space is ample—perhaps too extensive. There are washrooms and showers. The floors are of cement and are clean; the workers stand on a movable floor of wood.

This factory, partly reconditioned, partly new, is typical of innumerable other factories in Russia as we studied them in thirty-five different plants in seven large industrial centers. Many of them are pictured in *U.S.S.R. in Construction* published in Moscow. There are a great many more old factories functioning than there are new ones, and many of the old factories have been reconditioned, but most of the worst have been closed or are being torn down.

Each factory is, of course, divided into departments, most of the departments into rooms, as in any American or European factory. In each room is a foreman appointed by the management and a committee chosen by the workers. In each department is a superintendent, also appointed by the management, and a group of committees of course elected by the workers. The authority of the foreman and the superintendent is absolute. The committee in the division or room and the committee in the department take up with the foremen or superintendent or the director of the factory, according to the importance of the question, any problem they desire affecting production or the life of the worker.

Over the factory is the director, a man or woman who has been a worker

usually, and increasingly, so far as we could judge, a member of the Communist Party. He or she is appointed by the trust with the approval of the trade union and doubtless often nominated by or at any rate approved by the executive committee of the Party. Of this I cannot be certain, but more than one I know was so nominated. Side by side with the director, usually in very pleasant adjoining offices, is the technical director of the factory. These two control the factory. The director, familiarly known as the Red director as distinct from the technical director, knows very thoroughly the problems of the factory, though his function is chiefly that of developing an *esprit de corps* and maintaining the morale of the workers. The job of the technical director is apparent: it is that of the technician. As noted, he has a staff of assistant technicians working in the various departments. Very often, indeed in every case as we saw it, the technical director had been an experienced engineer under the old régime. The staff of assistants are young engineers, many of them having completed their technical training under the present government and frequently drawn from the workers.

Usually in much less elegant quarters is housed the factory committee with as many as thirty-seven members as in "G.E.T." (Government Electrical Trust), and in large factories with one to six paid workers, men and women, as in the "Three Hills" Factory. Members of this so-called "Fabcom" head up what is known as "commissions." These commissions and this factory committee deal with the problems of the worker—on the one hand, industrial that is looking toward increased production of higher quality at lower costs, and on the other hand, cultural, looking toward social and educational advancement of the worker, including health and amusement. The commissions found in many factories such as those drawn up by the Metal Workers' Union in Leningrad, consist of: industrial, labor and protection, conflict, cultural, mass organization and mass economic, promotion, work in villages, etc. Often we found special commissions dealing with political questions, with recreation, education of children, education in radio, education in music, education in military practice, etc.

Each commission is made up of a representative from each of the various departments, each member being the chairman of a similar committee in his or her own department. Doubtless a large function of the factory committee is educational, for very many adults in Russia are going to school. The factory committee functions energetically along lines of increased efficiency and improved output in the factory. For example, at the noon hour in the "Moscow Electric" factory, a department meeting was being held to which the director had been invited. The entire department was being organized into shock brigades. But the brigades were not happy. They were not reaching their production standard. The workers complained that they were not getting the materials; the foreman complained that the workers were making excuses. Finally the director, in well-chosen words, kindly, sympathetically rebuked both sides but inspired both sides, and the workers hurried away to their machines. Formerly the Red director, the technical director, and the president of the "Fabcom" constituted a managing committee. But we all

recall the change made two years ago by which it was assumed here that democratic control of the factory had ceased. The scheme I have just outlined provides for central and single responsibility and authority but it cannot be called undemocratic.

The question of incentives and rewards constitutes, perhaps, the two most unique elements to be found within the Russian factory. A basic wage and a piece rate is determined by conference between the trade union and the trust of the industry. The wages so determined vary according to skill and responsibility. The differential is not great but it is sufficient to afford an incentive. The result is that the wages for operatives range from a minimum of 40 to 50 rubles ($20 to $25) a month to 250 rubles a month ($125) and even a higher figure for the most highly skilled workers, not considering engineers, but applying to the Red director. Other incentives may be enumerated: definite schemes of promotion, definite efforts to stimulate increased skill and efficiency through all kinds of opportunities for training, and all kinds of efforts to arouse ambition. Promotions are carefully applied, not only within the factory but between factories and between industries; also from factory to positions in the government and positions under social institutions, both within and without the factory.

Rewards include not only wages but an elaborate system of insurance in the form of old age pensions, invalidity pensions, health insurance, both treatment and sanitaria, opportunity for recuperating in what are called Rest Houses and care of absenteeism because of sickness, and also the whole system of unemployment insurance.

Ten per cent of all profits in every factory is devoted to so-called welfare, for Russia uses the word welfare without fear or hesitation. Of this 10 per cent, 75 per cent is devoted to improved housing for the workers, 10 per cent to créches, and 5 per cent to the kindergartens. Thus the "Red Rosa" Textile Mill during the last year attained a profit of four and a half million rubles, or, in our equivalent, two and a quarter million dollars. Of this sum, then, $225,000 were spent on welfare, of which $168,750 were devoted to housing, and $56,256 to other welfare. In this particular case, as is true in practically every textile mill we visited, more than 7.5 per cent of profits was devoted to housing and much more was allocated by the trust for improving housing conditions, since usually they had been execrable in the old régime. In addition to the 10 per cent of the profits devoted to welfare, a sum up to 20 per cent of the pay roll for the year is paid to the state for social insurance of the workers in the factory. This social insurance includes unemployment insurance, old age pensions, and sick and invalid insurance. Thus the government reports 25 per cent of the national budget spent on welfare including insurance. In those industries that are considered hazardous the workers have extra holidays, and always we saw bottles of milk on the benches for them. Thus in the "Svetlana" Lamp Factory in Leningrad all workers are given one month's vacation with pay. Those not in dangerous work get the usual fortnight.

Social life is conducted in the factory under the direction of the factory committee, through the club for adults, the créche for young children and

babies, and the kindergarten for children. These crèches, managed by the department of health, are uniformly excellent. The clubs of the large factories are always magnificent. For the small factories, they are simple. But the kindergartens are uniformly poor.

Time prevents my describing these activities or the actual extent to which they are being conducted in the various factories. Suffice it to say that the factory with these social and educational facilities forms the community center for the workers. Around the factory (the new factory is always located in open spaces on the outskirts of the larger towns or in the smaller towns) are the new houses, a central food kitchen, a central laundry, and central baths. These units are being built in many communities.

MILDRED FAIRCHILD.—A grave misconception prevails in this country about Soviet Russia, to the effect that her present development is the work of one or a dozen or even two dozen super-men, men who plan, conduct, and regulate her industry as well as her politics. This idea is incorrect. Whatever our attitude or our emotional reaction to Soviet Russia, we shall never get the key to her success—and there can be no question of her basic success in her industrial program at the present time—until we cease to look for it among the few men and organizations at the top and look to the mass of the people.

One of the best examples of my point lies in one of her most knotty problems; namely, that of industrial skill and technique. Soviet Russia is industrializing at present more rapidly than any country in the world has ever done. After a thousand years of agriculture, she has within the last ten years, indeed within the last two years, turned from a production preponderantly agricultural to a production preponderantly industrial. In 1913 her gross production in industry amounted, approximately, to 8,430,000,000 rubles, her gross production in agriculture to approximately 11,610,000,000 rubles. During 1929-30, the former overreached the latter and was, I have understood, about thirteen billion pre-war rubles, though I have not yet seen the official reports for November 1, 1930.

Under such circumstances, it is not surprising that there is a lack of an adequate supply of industrial skill and technique. Soviet Russia does lack these seriously. She has neither experts enough to plan and direct her production nor skilled and seasoned workmen enough to man and operate her machines. According to estimates of the Government Planning Bureau, in 1927-28, she had .67 per cent of university trained engineers, and slightly more (.69 per cent) of technicians for each one hundred workers. By their own estimate, this is not much over one-half the proportion in Germany at the time of the 1925 census. By Gosplan estimate again, Soviet Russia had in 1927-28 out of twelve million industrial workers only about 40 per cent who were trained to their trade, or what the Russians call "qualified" workers. With the supply of skill and of technical knowledge so low at the beginning of the Five Year Plan, one can surmise what it might be after two years in which output has expanded between 45 and 50 per cent and what it will be at the end of the Five Year Period in 1933 when output is expected to treble the 1928 figures.

Some effort has been made to help make up the deficit by importing foreign experts and even skilled workmen from the industrially advanced countries, especially from Germany and the United States. A limited number of highly trained experts have been brought into the country in this fashion in many cases, though not by any means universally, with great success. But to bring in skilled workmen successfully and in anything like sufficient numbers has proved difficult. Judging by reports from the new tractor plant at Stalingrad where some three hundred American technicians and master workmen have attempted to introduce ten thousand new Russian workers to the processes and the discipline of tractor production, it may never prove practical at all. Obviously skill in Russia must be built up within the people. Obviously also it cannot be done merely on orders from the Kremlin. Official estimates are that it will take at least a million and a half more skilled workers to man industry properly in 1933 than were available in 1928, even allowing for certain increases in what in Europe is called rationalization, or efficiency methods.

The methods of training being used are extremely interesting. In the first category come the factory schools. Almost every factory operated by a state trust has attached to it a factory school where boys and girls from sixteen to eighteen years old work four hours a day at the bench or machine and study four hours a day on related theory. The period of training lasts for two years and the scheme is modeled after German apprenticeship methods. In most of these factories, also, young workers, most of them under twenty-one at least, are organized into what the Russians call "brigades," groups of learners who build up their trade under the guidance of a master workman who acts as teacher. In 1928, in census industries, that is state-operated manufacturing industries, employing over two million workers, one hundred and thirty-two thousand young people were being trained in these various apprenticeship courses, according to the statistics of the Department of Labor.

Next comes the Central Labor Institute which operates under the national organization of trade unions in co-operation with the labor exchanges and the Supreme Council of National Economy. This institute, with bases in different localities and different cities, trains young persons, usually between eighteen and thirty years old, in mass production methods by carefully systematized instruction, based on Taylor and Gilbreth techniques. In 1928-29 between ninety thousand and one hundred thousand men and women, 46 per cent of them under twenty-one, attended these courses and in 1929-30 over one hundred fifty thousand were being planned for. The industries served by this means, to date, have been the metal and textile trades primarily. The courses have lasted on the average about five months. Allowing for a dropping out of about 40 per cent of the young persons starting the training, the official estimate expects about two hundred fifty thousand semi-skilled and mass production workers to be prepared by the Central Labor Institute by 1933.

Probably most immediately important of all, are the requalification courses, as they are called, which we found in every factory. These are

composed of groups of workers within the factory attending evening courses both theoretical and practical in nature. These courses were started by the factory committee; that is, by the trade union committee elected by the workers in the factory to co-operate with the management in plant problems, both for labor protection and for production. They are now assisted by a central organization known as "Tech-Mass," that serves as a clearing house for information and organization.

The writer saw a number of these circles at work. One group of about sixty young men selected from various factories and gathered twice a week at the Central Polytechnical Museum in Moscow, was studying mathematics. Across the hall from this group in the same building a more advanced group of young men met regularly to study electricity. The building indeed was filled with young workers every evening studying to improve their technical knowledge or skill. Practically all of the institutions of this sort, including the clubs of the workers which are conspicuous near every large factory and in every industrial district, conducted evening classes of this kind for the workers.

In 1929, in all courses and institutes, according to official statistics, about five hundred thousand persons were in training to become skilled or semi-skilled; i.e., qualified workers. These figures include those given above for the factory schools and the Central Labor Institute courses.

When it comes to training engineers and technicians, the numbers needed are less but the difficulties are greater. The technical high schools are new in Russia; the whole type of education that they represent is without background in the country and without a basis in experience. Engineering, on the other hand, was well established in Czarist Russia. The requirements were high and the traditions excellent. The training given was highly theoretical, however, and its application to large-scale production, such as Soviet Russia is attempting to build up, is still only partially developed. Moreover, the old engineers of Russia were largely members of the aristocracy and upper bourgeois classes. They are still only imperfectly adjusted to a socialist or a worker's régime. The engineering schools, therefore, have not found it easy to train the new proletarian engineers demanded by the government policies.

In 1929-30 according to the Gosplan figures, there were approximately sixteen thousand graduate engineers, seventeen thousand trained technicians and about twenty-five thousand practical technicians; that is, men trained to their particular work by experience on the job. The Gosplan estimates also that by 1933 the country will need approximately sixty thousand engineers with university training and ninety thousand technicians with secondary school training. It has, at present, according to the same source, twenty-five technical and engineering colleges and institutes, with just under fifty thousand students training for various branches of industry, and one hundred twenty-three secondary technical schools with thirty-five thousand students. It will need to graduate 20 per cent a year of its present students to meet the requirements by 1933, a very doubtful possibility at the present rate of graduation.

The competition for engineers and technicians is naturally very keen. A great many factories send students on scholarships to the various institutions. Factories also contract out students; that is, pay them a regular wage for a part of their period of study under contract that the student will work for them after graduation for a certain number of years.

The difficulties to be overcome and the methods devised cannot be given in so brief a review. Moreover, schemes and plans alone can never solve the problem of mass training such as Soviet Russia is facing, unless a vast number of people are solidly behind the program, ready to work untiringly to carry out the plan as scheduled. Kremlin orders will not suffice. The figures that I have given seem to me to be unquestionable evidence that such support is being given at the present time.

Calvin B. Hoover.—The economic and social experiment which Soviet Russia represents is the most significant development of our capitalistic era. I suppose it is impossible to analyze and weigh this experiment without emotion. It is usually said that the Soviet régime must collapse because it is wicked or that it is bound to be successful because it is ethically superior to capitalism. Foreign observers in Russia, if they have reported any degree of economic success, have usually prefaced the report with a eulogy of the new utopia where all men are comrades, and envy, hate, and fear have vanished. Other foreign observers have accompanied their tales of the horrors of darkest Russia by prophecies of the imminent collapse of the Soviet economic structure.

It is probable that I constitute a minority composed only of myself when I state it as my considered judgment that the Soviet régime has created a new way of life which is further removed from the "good life" of the utopian philosophers than is our present bourgeois civilization, while at the same time I recognize the fact that the Soviet economic system has scored some impressive successes.

Soviet Russia is a land in which force and fear reign supreme. Individual liberty, freedom of the press, freedom of speech, freedom of conscience are non-existent. Bitter and fanatic hatred is officially inspired and nourished. No institution or group may exist in Soviet Russia without complete domination and control by the Communist Party. The *chistka*, or "cleaning," is used to root out ruthlessly any signs of opposition to the dominant wing of the Communist Party, so that democracy does not exist even within the ranks of the Party. The G.P.U. has made of Russia a land where no one is safe, and its network of spies is so widespread that no one dares trust anyone. For cold and merciless fanaticism on a grand scale the world has probably never witnessed anything to compare with the "liquidation of the kulaki as a class." This liquidation involved the dispossession of millions of humble peasants and the exile or execution of numberless others.

Nevertheless this impressive record of fear, force, and terror cannot obscure the degree of economic success which has been achieved. After the heavy discount which one must make when using Soviet statistics, after allowance for the difference in the base upon which the computation is made, even after a further discount on account of the miserably poor quality of

product, the record of a 16 per cent increase in industrial production in the economic year 1928-29 is impressive when compared with the rate for the United States of about 4 per cent. The record of one-fourth of all peasant farms collectivized and a harvest which has restored Russia as a factor in the international grain market cannot be obliterated by the undoubted fact that collectivized agriculture has been forced on the peasantry in the face of their desperate opposition.

The great program of capital construction which characterizes the Five Year Plan is an interesting answer to the old contention that saving of capital under a socialistic régime would inevitably be insufficient. At the same time it must be noted that this program has been carried forward in almost complete disregard for the wishes of the population. The burden of privation which the Russian people have had to bear in providing this capital has required all their reserve of Asiatic resignation to the inscrutable decrees of Fate.

Whether the Soviet régime can survive the present difficult situation with its acute shortage of consumption goods depends primarily upon the incredible capacity of the Russian population to endure strain. If the régime does survive we are confronted by the problem of whether our capitalistic economic system will be able to make use of the experimental data which is developed by the Soviet economic system. The Soviet economic system copies capitalistic technique without hesitation. It is to be doubted whether our less centralized system can so readily adapt Soviet institutions to its needs. The capitalistic system, nevertheless, cannot afford to stand still. For example, any schemes for the stabilization of our economy through purely negative action such as the limitation of production would be highly dangerous in view of the communist challenge. Our capitalistic system must be constantly able to offer a higher standard of living to labor than could be obtained under communism if sharp class struggle is to be avoided.

To an economist it would be desirable if the Soviet régime could carry on its experiment with socialism without interference and if eventually the world could freely choose between the two systems or evolve a synthesis of both. It is an ominous thing to consider, particularly in view of the present difficulties which beset our world, that such a development is extremely unlikely. It appears to me that the survival of the Soviet régime through the next two or three years means a beginning, within the decade, of a stubborn conflict between communism and capitalism. As I have written elsewhere, the only question in such an eventuality is whether the first conflict will come on the colonial front of capitalism in India and China or on its western front in Germany. The peaceful coexistence of capitalism and communism seems to me to be an impossibility. It is interesting to observe that orthodox communism insists that this is so, while it is vehemently denied by the noncommunist friends of Soviet Russia in the United States.

This is not to say that either communism or capitalism must inevitably destroy the other. I do not think it possible to predict the exact character of such a conflict, and still less is it possible to predict the outcome. But if and when the most pressing of the internal difficulties of the Soviet régime

have been liquidated, it is hard to see how external conflict can be avoided because of the inevitable differences in the ideals of communism and capitalism.

MABEL NEWCOMER.—One test of the ability of the Soviet government to maintain its program of industrialization is the way in which it finances this program. The cost of the Soviet program was close to twenty billions of rubles last year. Financing such a program would be difficult in any country, but in a country which has never accumulated large capital funds, and is unable to establish any considerable credits abroad, it would seem to be all but impossible. The cost of such rapid industrialization is out of all proportion to the earnings of the industries already established. It means that all of the surplus above the barest necessities of life must go into building for the future. The government must be strong enough, or persuasive enough, to make the people accept this low standard of living, and to collect the surplus, wherever it can be found, through taxes, earnings of state industries, loans, or, as a last resort, currency inflation.

The government's financial plan is somewhat as follows: Capital for construction is provided in part through government grants, or gifts, and in part through loans from the banks. The proportion of the capital which is given outright and the proportion which is merely loaned is determined by the importance of the industry in the industrialization program. The Putilov plant in Leningrad, which is regarded as an essential industry, has been given two-thirds of its capital and has borrowed the remaining third. Also, the amount of capital which comes from the central and the amount which comes from the local government is determined by the national or local importance of the concern.

Once in operation an industry may or may not become self-supporting. This is not necessarily a question of efficiency. It may be required to sell its product below cost if this seems essential to the development of the plan. If this is the case the government must continue to supply funds. In general, however, industries in full operation are expected to be not merely self-supporting but also producing a surplus. This surplus goes first to the development of the specific project; i.e., to expansion of the plant, if expansion is desirable, to housing (and housing means the building of entire cities with water systems, paved streets, sewers, schools, hospitals, clubs, and theaters), and to the welfare of the workers generally. Secondly, the surplus goes to the central government to be used to subsidize other, and probably new, industries. Again to cite the Putilov plant, 25 per cent of profits go to expansion and to welfare of the workers and 75 per cent to the central government. In time it is anticipated that general governmental functions, as well as industrial projects, will be financed directly from the earnings of industry; but as long as the cost of new construction is out of all proportion to the earnings of established industries, taxes and loans must be resorted to.

No figures are available for the entire twenty billions of rubles expended last year; but of the twelve and one-half billions financed by the central government, about 42 per cent came directly from the earnings of industry. The major part of this revenue was from transportation and communication. The railroads, post, and telegraph service are not, however, quite self-support-

ing, so that these revenues, and more, are consumed in operating the enterprises already in use.

The net contributions of industry, after deducting operating expenses of public utilities, were sufficient in 1929-30 to meet about two-fifths of the national industrialization program. The remainder was met from taxes and loans. Taxes contributed nearly half (48 per cent) of the revenues of the national budget in 1929-30, enough to support the general government, including the army, all of the industrialization program not covered by direct contributions from industry, and grants to local governments.

Taxes may eventually give way to direct contributions from industrial earnings, but they are still a vital part of the national economy. They serve, in fact, several functions. First, they produce the revenue needed for the industrialization program. Second, they are an important factor in equalizing individual incomes. Third, taxes force the peasants to sell their surplus product, so badly needed in the cities and for foreign trade. Perhaps, also, heavy taxes spare the people the discontent which so frequently arises in Russia, and is so incomprehensible elsewhere, of possessing money which they are unable to spend because there is nothing to buy.

Borrowing continues to be an important element in the financial plan. The proceeds of loans supplied approximately 10 per cent of the central government's revenues last year. Part of this sum was used, however, for refunding, and the total national debt outstanding is less than three-fifths of the annual tax revenue. In Germany, a government which, like the Soviet government, wiped out old debts after the war and began anew (save only for reparations), the national debt is at present as large as the annual tax revenue. The Soviet government's conservatism in floating loans is, perhaps, forced upon it by inability to sell government bonds, but the fact remains that the national debt is a modest sum.

The final and real test of the strength of Soviet finances rests with the currency issues. It is difficult to measure inflation under ordinary conditions, and it is peculiarly difficult in Russia where the usual tests fail. The chervonets is still backed apparently with the legal 25 per cent of gold, precious metals, and foreign currency. There is, in fact, a slight margin, reported on November 15 to be one million rubles. Only about half of the currency, however, consists of chervonets. The remainder is without any such backing, and the total currency increased 70 per cent in the year 1929-30. Such rapid increase must mean inflation, though with the larger part of prices and foreign exchange controlled by the state the usual measures are meaningless.

It is not clear, however, that growing trade will absorb this increase without too violent a reaction. And in the latter part of 1930 the government apparently succeeded in reducing the currency in circulation on the one hand, and in increasing the gold backing on the other. The change is not large, but it indicates that the situation is under control. And it is important to note that they anticipate financing the increased expenditures of the current quarter of the fiscal year without any increase whatever in the currency.

In summing up, it should be said that the Soviet budget shows many ele-

ments of strength: a large percentage of expenditure for production purposes and a growing proportion of income from the earnings of industry; a gradual shifting of such taxes as are imposed from articles of consumption to income; and a budget which balances without excessive borrowing. Against this there is some currency inflation, but as yet this would seem not to have gotten out of hand.

WILLIAM ADAMS BROWN, JR.—On April 1, 1930, the Soviet Union undertook at one stroke to abolish throughout what is known in the language of Soviet Russia as the "socialized sector" of industry and agriculture, that time honored instrument of finance, the bill of exchange. This measure, however striking in itself, was only part of a general reorganization of the machinery for the distribution of credit in Russia which has a deeper meaning. What is known as "credit reform" in Russia has at least three very important aspects, and as a whole it is of very great significance to the development of the communist economic machine. These three aspects are: (1) The elimination of unnecessary duplication of credit in financing the production and distribution of goods; (2) the simplification and centralization of financial planning in such a way as to bring the State Bank into the very foreground of the economic life of the country and to make it one of the most powerful organizations in the Soviet state; (3) the establishment of an accounting control and audit over the operations of all state enterprises whereby the efficiency and economy of their operation can be continuously measured.

I wish to consider these three aspects of the Russian credit reform briefly. The first aspect of the credit reform is bound up with a general change in the organization of production and distribution. Before the change there was a system of syndicates in the various industries which bought all the raw materials for the factories or group of factories, then called trusts, in a particular "sector" of industry, gave these factories technical advice, and took over all their output. This the syndicates sold to other syndicates, special state enterprises, or to the co-operatives. The purchases for the co-operatives were made by *Centrosoyus* which resold the goods to local co-operatives, which sold to the final consumer. To illustrate the financing of production and distribution of goods as it took place under this organization of industry I shall take the simple case in which all the credit received by the original maker of the goods was paid out in cash in wages and the goods passed through the co-operative system and sold to the final consumer for cash.

In this case there were four steps in distribution: (1) The factory sold the goods to its syndicate and drew a bill of exchange on the syndicate. This it discounted at the State Bank, and converted the credit thus received into notes to be used to pay wages. (2) The syndicate sold the goods to *Centrosoyus* and drew a bill of exchange on *Centrosoyus*. This it discounted at the State Bank, and received credit in account. If the sale of the goods by the syndicate and the making of this second draft took place before the maturity of the first draft, two drafts were outstanding at the same time covering the same goods. (3) *Centrosoyus* sold the goods to a local co-operative, and drew

a bill of exchange on the local co-operative. This it discounted at the State Bank and received credit in account. If this sale was made before the maturity of the draft drawn by the syndicate on *Centrosoyus,* there were two drafts outstanding covering the same goods at the same time. If it was made before the maturity of the draft drawn by the factory, there were three drafts outstanding covering the same goods. (4) The local co-operative sold the goods to the final consumer for cash, and deposited the cash with the State Bank, and received credit in account. This deposit involved no new creation of credit, since it was a primary deposit of cash withdrawn from circulation. It was merely a conversion of bank note into bank deposit credit. Upon the maturity of the drafts held by the State Bank, the structure of credit thus built up to finance the passage of goods into consumption was wiped out.

Under this method of financing the distribution of goods there was a cumulative building up and a corresponding cumulative tearing down of bank note and bank deposit credit. As goods often passed quickly into consumption, sometimes as rapidly as in two or three weeks, whereas the drafts were customarily drawn for three months, this triple expansion of credit was often in existence for a considerable period. As a result, the total volume of credit required to finance the movement of goods into consumption was much greater than was thought to be needed. If the value of goods coming from the factories had been equal to the value of goods passing out of the hands of distributing organizations into consumption, a constant, though unnecessarily large, volume of credit would have been employed in financing the flow of goods to the consumer. But these two values in the very rapidly growing Russian economy were not equal. There was a constantly increasing volume of goods coming from the factories and hence the credit continually being canceled was less than that being created.

In instituting the credit reform the Russians said in effect, "Let us get rid of this complicated system of bills of exchange with its continuous rediscounting, unnecessary bookkeeping, and undesirable building up of both sides of the balance sheet of the State Bank. It is the consequence of an illogical procedure copied from capitalistic countries; namely, the procedure of giving credit to the seller who has goods and does not need credit. Let us rather give credit to the buyer who has neither goods nor credit. Let the credit follow the goods." The abolition of this system of finance was greatly facilitated by a comprehensive reorganization of industry, the chief feature of which was the abolition of the syndicates and the establishment in each major industry of one great trust or *Obiedinenia* which assumed all the functions of the syndicate and in addition, the active management of all the factories and groups of factories (the earlier trusts) in each industry. Very large units, such as for example, Dnieprostroi, were treated as separate units and not included in any of the new trusts. At the same time *Centrosoyus* became more and more the merely planning organization for the distribution of goods throughout the whole co-operative system.

The basic principle of the credit reform is to require each organization which makes or distributes goods of any sort, including the great producing

organizations such as the state farms in agriculture, the trusts in industry and special projects like Dnieprostroi, and the great distributing agencies such as the railways and the co-operatives, to keep an account with the State Bank and to provide each organization with a sufficient credit on the books of the State Bank at the beginning of each quarter to meet all the calls upon it for cash or bank credit during that quarter. As each of these organizations deals either as buyer or seller with the others and all have accounts with the State Bank, all payments between them can be effected by a transfer of credit on the books of the State Bank. The other dealings of these organizations are with the public in cash. In the case of the foreign trade monopolies, however, which deal with foreign countries the bill of exchange is still used.

By this reform the use of the bill of exchange throughout Russia, with the exceptions noted, was abolished and the pyramiding of credit which resulted from it was avoided. As soon as goods pass from one organization to another, credit on the books of the State Bank moves in the other direction. No organization receives credit from the sale of its product before the buyer is debited for the purchase.

The second aspect of credit reform is concerned with the power of the State Bank in economic planning. The important question to be answered as a result of this credit reform is, "How much credit shall each of these various organizations have at the beginning of each quarter?" And this question has really two parts: "How much long-term credit, how much working capital, shall it have?" and "How much short-term credit shall it have?" The credit reform brings the State Bank forward into a dominant position in the economy of Russia instead of assigning to it the passive rôle of making available whatever credit may be demanded of it by state organizations.

Under the credit reform the State Bank became the cashier of the whole of Russia. The other banks in the Russian banking system became planning organizations and distributors of credits and not banks properly so-called. This is the case of the *Prombank* (Long-Term Credit Bank for Industry and Electrification) which is the specific instrument through which the State Bank allocates long-term credits for industry, of the *Communalnibank* (Communal Bank) which allocates long-term credits for housing construction, and of the *Vsecobank* (All Co-operatives Bank) which does the same for the co-operative system. Until the last few weeks when it was bodily taken over by the State Bank this was also the case of the *Kholkhoznibank* (The Federal Agricultural Co-operative and Collective Farm Bank) a central bank for agriculture which allocated credits to collective farms and financed the agricultural co-operatives under contracts arranged with the State Bank. These institutions do not have their own banking apparatus and keep their accounts with the State Bank. The credits granted by them are not deposit credits on their own books but credits on the books of the State Bank.

The granting of all short-term credits throughout the whole of Russian economy is done by the State Bank itself. These credits are granted in the form of a line of credit to be available for a specified period in accordance with a definite credit plan approved by the State Bank.

The amount and distribution of all these credits are incorporated in a yearly and a quarterly financial plan for the whole country and do not become effective until the unified national financial plan is put in force. The unified financial plan is drawn up by the *Narcomfin* (People's Commissariat for Finance) in consultation with the State Bank. It includes the state budget, the long-terms credit plans, and the credit plan proper. It is submitted for approval to Gosplan. The State Bank must agree to it for it may involve inflationary policies not desired by the State Bank for modifications in the credit plans prepared by the State Bank. Objections by the State Bank may be overridden by the government through *Sto* (The Council of Labor and Defense), but the State Bank has a sort of suspensive veto in financial matters somewhat analogous to that of the British House of Lords.

The greatly increased share in financial planning given to the State Bank after the credit reform introduces an independent check upon the other planning organizations, a very important modification of the whole planning system. This is most clearly seen in the preparation of the credit plan proper, which is prepared by the State Bank itself and approved by the Gosplan. This plan is based upon detailed financial statements, submitted to the State Bank by every planning organization in the Union and showing how much credit each will require in order to carry out the tasks assigned to it by the general plan of production. The planning organizations include:

Vesenha for industry; *Narcomtorg* for domestic trade, including the whole co-operative structure and foreign trade, including the twelve export monopolies and the importing organizations, for example, the importation of tea through *Centrosoyus; Narcomput* for transport; and also ten others.

Each of these planning organizations submits a quarterly financial plan in which is included in each case the plan of a large number of producing or distributing units. *Vesenha,* for example, presents the plan for all the great *Obiedenenii* or trusts under its direction. Each trust in turn prepares the financial plan for each of the enterprises within it. It makes out a form sent to it by *Vesenha,* which is submitted to the State Bank. In this form the trust sets forth its budget for the quarter, itemizing its expenditures and receipts and showing the need for short-term credit which it expects to experience and the long-term credit assigned to it by various sources including the budget and the *Prombank. Vesenha* approves these figures and includes them in its general quarterly financial plan mentioned above. But this is not enough. The figures of credit included in the plan of each trust must be approved in detail by the State Bank before the State Bank will submit it to the Gosplan.

On the basis of figures arrived at in this way the State Bank makes up its financial plan which is approved by the Gosplan. In this financial planning the same distinction between industries of local, of regional, and of national importance is observed as in the general production plan; that is to say, the State Bank and Gosplan in Moscow are not called upon to approve the financial plan of any industry or other enterprise not considered to be of all-union importance.

The third aspect of the credit reform is concerned with a continuous

audit of Soviet industry and trade. The way in which the credit reform provides continuous audit of the accounts of Russian economic organizations and a measure of the efficiency of Russian production and forces industry to endeavor to increase efficiency, can be most profitably considered by an examination of a specific example. In calculating the amount of credit which any given factory will need during a given period (year or quarter) there are three important elements: (a) the amount of finished product which the factory is required to produce by the plan of production; (b) the output of finished product which it can produce per unit of labor and raw material; (c) the prices of raw material and the rates of wages which the factory must pay.

These are the same elements which enter into the calculation of the price which the factory will receive for the finished product, and gears in with the general machinery of price determination. Since the amount of the product to be produced is known, and the prices of the raw materials and the rates of wages are also known in advance, the whole question of what amount of credit shall be assigned to the factory, and also what the price which it receives for its final product shall be, depends upon the second of these three elements; i.e., upon the efficiency of the factory. If it is known in advance what the output of the factory per unit of raw material and wages is going to be, it is a simple matter of arithmetic to find out how much labor and raw material it must have to fulfill its production quota, and, since the prices of the raw material and wages are known, to calculate the costs of production. The costs of production being known and the output being known, the price of the finished product emerges by a sum in division, for the factory must sell its product to its own *Obiedinenia* at its own cost of production. Both the expenditures and the receipts of the factory being calculated in advance in this way, it is possible to calculate also the amount of credit which the factory will need to provide working capital during the period of production.

If, under these conditions, the individual factory operates during the year, or during the quarter, exactly in accordance with the plan, it will come to the end of this period with a balance in the State Bank which can be calculated exactly in advance. If it operates more efficiently than it is instructed to do in the plan it will have a larger balance than that planned for; if less efficiently, a smaller balance. This circumstance gives the planning authorities an immediate and automatic measure of the efficiency of every factory in the Soviet Union. Deficiencies of this kind are subject to rigorous investigation. A committee is set up, consisting of the director of the factory, representatives of the workers and of the *Obiedinenia.* If it proves to have been due to defects in material or other causes beyond the control of the management, it is made up from the general funds of the *Obiedinenia.* If it proves to have been the fault of the management, the debit balance is carried forward to the next period. If the loss is cumulative, the factory cannot continue to get short-term credit from the State Bank, and the debit must be made good by an advance of capital by the *Prombank.* The question is then whether or not the fault is in the technical equipment, or in the degree of efficiency expected or standards set by *Narcomtorg* or *Vesenha,* or in the management.

When this question is answered either the equipment is changed or the standards of performance are changed or the management is changed.

The question of credit control is in these various ways intimately connected with many important developments in Soviet Russia. It is intimately connected with the whole plan of fixing prices which involved the fundamental problem of the current accumulation of capital. It is intimately connected with the plan for the redistribution of profits of individual industries over the whole field of industry. It is intimately connected with the rise to a position of commanding economic importance of the State Bank, as well as with the whole system of audit and control of the actual efficiency of operation within the producing units of the country. It is, in fact, basic in any consideration of the whole financial side of economic planning in a communist state.

PAUL HAENSEL.—Because of brevity of time and admonition of the chairman I shall add only a few remarks on the previous papers and make perhaps a few corrections.

We cannot seriously speak about "democratic management" of Soviet industry because the Red directors have lately received autocratic powers for the operation of industrial undertakings, because experience has shown the impossibility of a "democratic management." The "one-man-power" system *(yedinonachaliye)* is the guiding principle in the Soviet administration. The Red directors cannot be hindered any more, in case of dismissals, etc., by the opposition of the local communist "cells" or the trade unions, who may only appeal to the superior organizations for redress. A Red director is autocratic in matters of workmen's discipline. In the railway service the chief of the respective branches of railway administration has even the right to imprison for not longer than three months his subordinates for disregard of discipline. A station master may imprison his inferiors for not more than three days. These orders are made effective immediately by the G.P.U. (secret police) and no protests may delay their execution.

As a result Soviet Russia has made a great and astonishing progress in her industrialization policy. Moreover, this is achieved by application of such methods as are simply impossible in any capitalistic, industrial nation, because trade unions would not permit this exploitation of the workmen. Wherever feasible, piece-work wages have been introduced in Russia in order to stimulate highest possible output. In order to increase profits of the state industry, an extra shift has been introduced and factories work now 21 hours a day in 3 shifts. This meant introduction of night work. Sundays have been abolished, the factories working continuously 360 days a year.

The working class of Soviet Russia suffers from extreme shortage of housing, foodstuffs, and textiles, while at the same time the government exports building materials, foodstuffs, and textiles in considerable quantities. Being unable to stand the terrible privations, the Russian workmen began to leave their factories in great numbers. To combat this flight, the Soviet government has lately introduced severe restrictions. As a rule workmen are not allowed to leave their factories now, special black lists being introduced to prevent changing jobs. Mobilizations of workmen and engineers

have been proclaimed; those refusing the job offered are not allowed to get any other job for six months or are expelled from trade unions or are criminally prosecuted. This means forced labor.

Therefore, I cannot accept the somewhat rosy pictures of the situation in Russia which have been presented here. As a matter of fact, the situation is very strained, and the government applies even such methods of exploitation of workmen as are simply unthinkable in modern times in capitalistic countries. On the other hand, there is such an enormous waste, poor quality of production, and inefficiency in the execution of this great five-year program that we are correct in asserting that the Soviet government has not shown the superiority of a socialistic order in comparison with the achievements of the advanced capitalistic countries.

TRUSTIFICATION AND ECONOMIC THEORY

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The first stage in the study of special problems in any field of science is one of intensive application to the concrete facts which have developed the "problem" characteristics of the particular subject matter. These facts have to be explored, canvassed, classified, analyzed; in short, somehow digested. They must be first found and then ordered into "patterns." Only by such classification or arrangement can they become a part of the general body of knowledge in the field to which they relate. It is, as a rule, only after a long period of fact-finding and fact-interpretation that the students of a special problem feel the impulse or justification for venturing to reconsider the basic framework and principles of the science in the light of what they have learned from their researches. This tendency to postpone the examination of the general theoretical significance of the results of special branches of study is perhaps more marked in the social sciences than it is in the physical sciences. In economics, in particular, these special branches of the science deal with immediately practical problems, and for at least two reasons this tends to prolong the period of absorption in fact assembly and analysis. First, because it makes most special economic problems "live issues" of current action and policy, which, to say the least, does not encourage theoretical inquiry into their bearing upon the shape and scope of the science as a whole. Secondly, because whatever may be the fruits of cultivating these special and practical branches of study, it is always possible and generally easy to interpret any incongruity between them and the general body of accepted doctrines as arising from peculiar, ephemeral, or adventitious factors. Far from calling into question the validity of the orthodox body of economic theory, the appearance of unassimilable facts is likely to be set down to sporadic circumstances or these observed results may be regarded simply as "sports."

It seems not improbable that the occasion for a re-examination of general principles awaits the accumulation of a sufficient number of these "bad fit" cases, or even incongruities, and exceptions, from various special branches of study to challenge the integrity of the main theoretical principles of the science. It is likely that only with the confidence drawn from a wide-spread sympathetic urge can the cultivators of special fields of study gain the requisite strength of purpose for undertaking to reverse the direction of their inquiry, so that it shall lead not from orthodox theory to special problem, but from new discovery to old

doctrine. In this connection, it is significant that students of the business cycle have latterly been turning their attention to the question of the extent to which the incessant fluctuations which they have been investigating reflect upon the verity of economic laws derived from assumed static conditions. In this paper, we propose to essay a similar inquiry into the bearing of our knowledge of concentration tendencies in business organization, a knowledge which has been accumulating from special studies of the problem by many students over two generations, upon the presuppositions and the conclusions of economic theory as currently propounded.

At the outset, it may be permitted us briefly to recount how, as we understand it, economic theory in general explains the market adjustments which are supposed to give the direction to, and to determine the outcome of, all economic processes and activities in a private enterprise system. Unless we mistake, the approved explanation runs in terms of a mutual balancing of independent forces. There are conceived to be operating in every economic process opposing forces which limit one another and at some point reach a condition of complete counterpoise. This point of stable equilibrium is not often predeterminable, but this is only because of lack of knowledge of the specific conditions. Moreover, the adjustment seldom remains fixed for long, but the equilibrium of forces is continually tending to be re-established nevertheless. What we would stress about this conception is not so much the conflict of interest, interest being merely another term for an economic force, but the matter of the point of mutual check. The point is the point! Every economic adjustment or transaction is supposed to be fixed, or more accurately is supposed to have a tendency to be fixed in a certain way, or on definite terms and these terms are the resultant, not of any arbitrary will, but of conflicting forces achieving a mechanical equilibrium.

Moreover, the conception is not simply of a balance being somehow struck between the forces of demand and of supply working in contrary directions in particular markets, considered as isolated situations. Rather, throughout the entire economic system there is posited a condition of mutual tension such that no change can take place anywhere without affecting in some degree the adjustment of forces in every other part of the system. This idea of mutual tension and interdependent balance, be it emphasized, affords the key to the explanation of all price phenomena, unless we misinterpret modern economic theory. For the doctrines of marginal utility, on the one hand, and of marginal cost, on the other, simply have no significance, that is to say, contribute nothing to the understanding of price-fixation, if interpreted in terms of supposed feeling magnitudes in respect to specific wants or specific exertions. It

is only as relatives—in other words, only in reference to possible alternatives—that the utility or the cost of anything has meaning, and that marginality can be conceived. But this leads directly, of course, to the conception of pervasive equilibrium, the master key of economic theory.

In line with this manner of reasoning, the whole economic process is conceived to be subject to an automatic governance, and what is true of the whole is true of the parts—so we have been taught. When it is said that the value of any good is fixed by demand and supply, for example, these forces are not thought of, in a market sense, as being subject to voluntary control. There is no suggestion here, of course, that economic theory excludes human will or judgment from the influences affecting supply and demand. Far from it! No more is suggested than what would unquestionably find general acceptance; namely, that neither demand nor supply in a market is amenable to willful or arbitrary control. In a competitive market, each of these forces represents the aggregate expression of a number of human decisions to act in a certain way in certain premises, and no single will is conceived to be capable of affecting, save marginally, the total force given expression on either side of the market. Even in a monopolistic market, while the supply is conceded to be subject to manipulation to a limited extent, the monopolist is considered bound to act in accordance with certain rules.[1] Inescapable principles of economic behavior constrain him to seek the maximum net revenue, we are assured. Consequently a monopoly price is no more the chance outcome of human caprice than a competitive price. In short, interest, not will, rules no less in monopolistic than in competitive markets, and as these two types exhaust all possible economic adjustments, according to general theory, there is no place anywhere for an arbitrary outcome. Choice may, as Professor Fetter declares, be the fundamental fact in economics, but it is individual choice to which he refers, and no one would be more insistent than he, we are confident, that individual choice does not determine any market value. Most economists, certainly, would be much more inclined to contend that market values determine individual choices than vice versa.

Theory, in sum, has taught us that in an exchange society every economic good must have a determinate value, and that these values, or prices, are fixed, under any given set of conditions, by a process of negotiation, bargaining, and adjustment of numerous independent forces. Changes in the conditions occur, it is admitted, but adaptation is pro-

[1] The phrase "monopolistic market" as here used bears the usual connotation of a unilateral monopoly, generally a monopoly of supply. The extraordinary case of bilateral monopoly, or barter, is not subject to the same conclusion, as Edgeworth first showed, a half century ago, in *Mathematical Psychics*. In that unique case the terms of exchange transactions are, within wide limits, altogether indeterminate.

vided for automatically through marginal adjustments. On the side of demand, these are accomplished through diversion of consumer purchasing power; on the supply side, through a shifting of productive resources. A similar line of reasoning explains the fixation of wages, interest rates, profits, and rent. It is a commonplace, of course, that all prices and all distributive shares are mutually related in an interdependent system. But it is not invariably recognized that this connotes just what we are endeavoring here to emphasize: that prices and incomes are opaque, objective, impersonal derivatives of market conditions. Economic theory leaves no place for arbitrary manipulation. Indeed, the scientific character of the study is believed to hinge upon this capacity of economic analysis for excluding the personal equation from all that takes place in the economic process.[2]

Now if the study of modern business organization during the past half century has established anything it seems to us to be that economic adjustments are not, actually, made as theory teaches. The direction of demand, the distribution of resources among industries, even the level of incomes are now substantially determined, and tend more and more to be determined, with the progressive concentration of industrial control, by the deliberate, calculated decisions of individuals and groups of individuals, in whom happens to be vested the management of modern industry. These men exercise a discretionary power in business affairs. But it is not a consequence of any piratical designs or predatory schemes such as were vehemently ascribed to them in the old days of "trust-busting." Nor is it, as their apprehensive apologists have tried to convince us, a consequence of exceptional merit or foresight on their part. It is simply that the technical requirements of modern industry impose an ever-expanding scale of organization, and under a system of private property and free enterprise some fortunate individuals are bound to fall heir to the power which this concentrated organization engenders.

We shall endeavor to establish this thesis by reference to experience in three spheres, in which, as it seems to us, recent developments have most signally marked the departure of economic practice from economic theory. We shall first examine the relations of the modern business unit, i.e., big business, to its employees; secondly, its relations to its

[2] The problem of the indeterminateness of market adjustments has recently come in for extensive probing by economists abroad, particularly in England. The discussion seems to have been precipitated by Piero Sraffa's article on "The Laws of Return under Competitive Conditions," *Economic Journal*, XXXVI, 535. See also: A. C. Pigou, "The Laws of Diminishing and Increasing Cost," *ibid.*, XXXVII, 188; L. Robbins, "The Representative Firm," *ibid.*, XXXVIII, 387; J. Schumpeter, "The Instability of Capitalism," *ibid.*, XXXVIII, 361; H. Hotelling, "Stability in Competition," *ibid.*, XXXIX, 41; M. Dobb, "A Sceptical View of the Theory of Wages," *ibid.*, XXXIX, 506; D. H. Robertson, G. F. Shove, and P. Sraffa, "Increasing Returns and the Representative Firm: A Symposium," *ibid.*, XL, 79; L. Robbins, "The Conception of Stationary Equilibrium," *ibid.*, XL, 194; and J. R. Hicks, "The Indeterminateness of Wages," *ibid.*, XL, 215.

bilateral monopoly, or barter, is not subject to the same conclusion, as Edgeworth first showed, a half century ago, in *Mathematical Psychics*. In that unique case the terms of exchange transactions are, within wide limits, altogether indeterminate.

investors; and finally its relations to its customers. Stated otherwise, we shall inquire into the position of labor, the position of investors and the position of consumers in an economic system characteristically organized and conducted along big business lines. Preliminarily it may be well to explain that the discussion throughout will relate to big business primarily, rather than to monopolies, either corporate or collusive, as such. We think that an egregious mistake has been made by special students of the trust problem in attempting to maintain a clean-cut distinction between monopolies and large-scale competitive business units. It is almost as bad as the common neglect of another distinction, and a far more vital one, between combinations by fusion (mergers) and combinations by agreement (pools or cartels). The question of the possession of monopoly power as a test of economic righteousness or viciousness seems to us to have been much overstressed, and now to be definitely outmoded. Instead of devoting ourselves to quibbles over the precise definition of monopoly and to subtle refinements in the tests of monopolistic power, we shall do much better, in my opinion, to recognize the obvious fact that neither pure monopoly nor perfect competition is ever encountered in actual practice. The essential fact seems rather to be that under the machine technique the productive and marketing activities in modern industries as a whole, in some more than in others but in all to a great extent, cannot economically be carried on save in very large units.[3] And by "large" we mean of a capacity adequate to provide for a substantial percentage of the total effective demand in the market. Moreover, when this situation is generalized, as it is rapidly becoming, the co-ordination of these specialized branches of big business becomes increasingly imperative. Their interdependence becomes too vital to countenance the practice of leaving their harmonious functioning to the chance outcome of David Harum bargaining. In other words, it is the size of business units, not necessarily productive plants or establishments but corporate entities, which should engage our attention, and this because the increasing size of the units has so far enforced a reduction of their number in most fields of production as to preclude that spontaneous marginal adjustment of supply and demand through the independent action of numerous producers in various lines of trade which real competition requires, and which as we have seen "equilibrium economics" presupposes.

It has long been recognized, by economists no less than by labor leaders, that the individual workman is deprived of any positive influence in the determination of the terms and conditions of employment under the so-called factory system of modern industry. Acting alone he is practically forced to accept the wages and working conditions offered him.

[3] Cf., the analysis of a closely related aspect of this development in "The Significance of Industrial Integration," by Lawrence K. Frank, *Journal of Political Economy*, April, 1925, XXXIII, 179.

XXXIX, 506; D. H. Robertson, G. F. Shove, and P. Sraffa, "Increasing Returns and the Representative Firm: A Symposium," *ibid.*, XL, 79; L. Robbins, "The Conception of Stationary Equilibrium," *ibid.*, XL, 194; and J. R. Hicks, "The Indeterminateness of Wages," *ibid.*, XL, 215.

His alternatives are so few and the employers' alternatives are so numerous, that even though the employers' reservation price on the job be high the wages may readily be fixed at a level approaching the workman's low reservation price on employment. This was true even early in the development of the factory system, long before the emergence of trusts and mergers. But the spontaneous growth of militant trade unionism through the nineeteenth century and the resulting development of collective bargaining seemed to most economists to furnish if not an adequate at least a stop-gap substitute for the free competition and equality of bargaining power on both sides of the labor market which their theory of wages called for. Some were even prepared to defend a marginal productivity theory without reliance upon the extraneous force of collective bargaining. For them the growing disparity between the number and the unit-power of employers on the one hand and of employees on the other was of no significance. But neither from the standpoint of logic nor from that of experience has their contention justified itself to many economists of the present generation.

For a time, however, in these two ways economic theory was spared the mortification of conceding that one of the principal price facts it sought to explain (i.e., wages) was not actually determined in the objective, mechanical, impersonal, and, above all, determinate way that all other price adjustments were conceived to be made. But we have latterly added to our experience facts which do not permit us, I submit, to accept this substitute theory with complacency. First and foremost the agency upon which the effective pursuit of collective bargaining depends has been declining. Not only has the membership of trade unions shown an absolute decrease since the war, but even more has their militant spirit flagged and their prestige diminished. Many have attributed this development to the advance of the machine technique, with the attendant displacement of manual skill. We should not dispute the significance of this factor, though we would point out that trade unionism continued to thrive during the pre-war period when the mechanization of industry was going forward steadily, if less spectacularly than in recent years.

To our mind, however, a factor equally, if not more significant in explaining the weakening of trade unionism is the persistent and pervasive expansion of industrial consolidation. We have witnessed in the past decade a remarkable revival and extension of the merger movement. It has carried big business into new fields, and by piece-meal absorption it has consolidated and fortified the position of the dominant leaders in many of the older industries. Especially noteworthy has been the growth of great investment companies and investment trusts in close alliance with established banking houses and insurance companies, by means of

which the extension of minority control over a wider area of the whole field of industry has been facilitated. These financial ties have bound to a geater or less extent all the major industries into what might perhaps be best described as a business guild. There is not even an approach to complete proprietary unification. Not even as a tentative ideal has that half-baked notion been entertained for a moment, we may be quite sure, by the hard-boiled realists who have been syndicating business. But what is being achieved, and what is from the present standpoint equally efficacious, is an actual and conscious solidarity of business interests, which finds expression at the minimum in common basic lines of policy such, for example, as employment strategy.

How has this movement towards concentration of control affected the position of labor? The outstanding result so far as labor is concerned has been to increase its dependence upon the employer. Just as the introduction of the factory system weakened labor's bargaining power, a weakness which the development of collective bargaining by trade unions was never able completely to offset, so the expansion of the merger movement has still further reduced labor in the necessity of taking what is offered in the job market. The progressive concentration of industrial control has made the theory of the marginal adjustment of wage rates in an open labor market still more of a quixotic delusion than it was under the simple factory system characteristic of the middle nineteenth century. It has even tended to devitalize trade unionism itself. And that in two ways. In the first place, it has enhanced still further the disproportionate bargaining power of those on the demand side of the labor market. Whereas under conditions of what we may call again the simple factory system of scattered, large-scale, but independent plants, it was possible for a well-organized trade union to exert a considerable leverage upon any single employer to bring him "into line" with the majority of the industry, under present-day merger and chain organization the employer can and does present a solid front in every section of the market. This circumstance and the attendant ability to meet a strike threat in one plant by expansion in, or transfer of operations to, other plants, has substantially undermined the bargaining capacity of trade unionism. The powerlessness of trade unions to meet the concentrated bargaining power of wide-flung industrial consolidations, with still more wide-flung "financial connections," is indicated by the general absence of labor organization in the industries in which mergers have established their dominancy. We suggest that it is by no casual coincidence that collective bargaining is most effectual in such fields as the construction industry, the clothing trades, and the printing trades—the very fields in which the merger tendency has been least conspicuous. On the other hand, wherever business consolidation

has developed very far we find a corresponding subsidence of trade unionism, as in the iron and steel industry, the baking industry, the vehicle industry, the tobacco industry, and the glass industry. Here again, a caution may be inserted against misinterpretation. We are not suggesting that the appearance of mergers in these fields of industry alone accounts for the decline of trade unionism and collective bargaining there, or even that mergers per se are characteristically and belligerently anti-union. But we do insist not only that the underlying conditions which favor the rise of mergers also disfavor the growth of trade unionism, but also that the development of mergers is itself a factor weighing against effective collective bargaining and thereby against successful unionism.

In the second place, by so much as the employer, through the merger process, has on the one hand been relieved of the fear of having his market undercut by a low-wage-paying rival, and on the other hand been relieved of the necessity of out-bidding a genuine competitor for his complement of labor, he has become more conscious of the very wide limits of discretion left him in the fixation of the wage contract. This "consciousness of power" has been revealingly exhibited recently in many ways, but always in such manner as to "take the wind out of the sails" of labor organizers. Perhaps it is shown most convincingly by the actual wage policy which has been generally followed during the past few years. Despite a steadily mounting unemployment in manufacturing centers wage rates have not declined. They even continued to advance from 1922 up to the close of 1929. Now in a normal market, free of arbitrary manipulation, such as economic theory treats of, wages are not boosted in the face of an oversupply of labor. Wages we have been taught are adjusted according to the conditions of supply and demand. Yet obviously this has not been true in practice. Orthodox economics affords no sufficient explanation for the course of the labor market since the war. For it will not do to ascribe the advancing wages, as many have done, to increased productivity of labor, resulting from better management and the introduction of improved machinery. We should be the last to deny that there has been a general and remarkable progress in industrial technique in recent years. In a first-hand investigation of productive efficiency we have found that in a group of eighteen manufacturing industries the increase in output per labor hour over a four-year period exceeded 20 per cent in nine instances, or half the total number. In one industry, an increase of over 100 per cent occurred within a five-year period. The survey made by the Federal Department of Labor has shown equally striking results. But these facts do not help to explain the increase of wages, for there is nothing in them to indicate at what cost of substituted productive factors the mounting output per

labor hour has been obtained. Clearly, the increase in the efficiency of utilization of labor is far from representing a net gain. The capital costs substituted for labor costs may not be of equal magnitude but they certainly do provide a substantial offset. Moreover, regardless of how extensive may be these deductions from the apparent gains in labor productivity, the employers need not and in a freely competitive industrial system would not check the employment of labor by keeping up or even advancing wages. Indeed, so long as the labor displaced is not elsewhere absorbed, and to the extent that the increased product of labor is not offset by other expenses, there is a direct and powerful urge for any employer in a competitive system to increase the volume of his employment. And what is to the interest of any one is to the interest of all providing they act severally. How then, we repeat, can orthodox economics account for the steady restriction of employment accompanying wage advances?

From the present standpoint the most likely clue to this riddle seems to lie in the wide-spread subscription to the "high wage prosperity" doctrine. Employers a generation ago would have been shocked, indeed horrified, we believe, at the spectacle of leaders of their own group proclaiming the principle that the welfare of their class was dependent upon paying wages higher than may be immediately necessary, in order that their markets may be protected by sustained consuming power. Surely, such a theory is the height of absurdity in a truly competitive, or negotiative, economy where market adjustments are made through variations in marginal increments. Under such circumstances neither would the necessities of consumer purchasing power require, nor would the competitive pressure upon production costs permit, this deliberate distribution of wages in excess of the necessary minimum.

The identical situation (growing out of discretion in fixing terms of work) also accounts, we suggest, for a great part of the so-called welfare activities of employers. It is universally recognized, of course, that these are not a simple, magnanimous gesture of generosity. But it is not so generally appreciated that the root source of this whole development lies in a gradually emerging awareness that the directors of modern industry have such a discretionary power in the management of the system that they cannot escape responsibility for its preservation. It will no longer do for them to say that wages and working conditions are beyond their control—that they are factors of which they must take account but which individually they cannot influence. Such evasion would be fatal in the face of the incontrovertible facts. So it is that personnel management is rising to a professional status, and executive responsibility in this sphere is achieving a business rank co-ordinate with that of the administration of finances, sales, production, and accounts.

In its relationships with investors, the modern unit of big business has also undergone a metamorphosis parallel to and comparable with the change in employment relations. The increasing concentration of industrial control has created corporate units too vast in size and too complex in structure to permit of even a pretense of active participation in shaping the policies of enterprise by the majority of their stockholders. The fundamental tendency of divorce of ownership from control is not new, of course. It is as old as the joint-stock company. With the introduction of general corporation laws and the rapid extension of corporation finance came a gradual recognition of the important change which was taking place in the relationship of the capitalist, as such, to business enterprise. Still, economic theory was loath to abandon the traditional conceptions of independent, individual saving as the source of capital, conscious, competitive selection of avenues of investment, and either continuous assumption of risk or definite contractual distribution thereof in the management of capital funds.

Only latterly, one may say since the war, is it becoming generally appreciated how much the volume of capital itself depends upon the deliberate decisions, not of many scattered savers, but of the few who control the destinies of great corporations. And these decisions obviously are not based, as they were formerly supposed to be, upon thrifty dispositions and calculations of economic security. They are based primarily upon a judgment of the effect of the provision of more or less funds upon the prosperity of the industry and the successful operation of the corporation. These considerations are not identical obviously, and it would be of some interest to trace the significance of this single aspect of the fundamental change which the evolution of big business has effected in the methods by which the economic process is conducted.

Of perhaps even more importance, from our present standpoint, is the disappearance of prudential choice of investment opportunities by enterprising capitalists. No longer, characteristically, do individual capital-accumulators survey a wide field of industrial projects, submitted by a multitude of ambitious entrepreneurs, and embark their savings on one or another according to an enlightened judgment of their relative prospects. It was in this way that economic theory counted upon the distribution of industrial resources to take its proper direction, the burden of risk, on the one hand, and the chance of gain, on the other, being supposed to direct social savings in the right channels. But instead of this, today we know that the decisions upon the building of new industries and the expansion or contraction of old industries are made by those who manipulate the finances of the corporate units of big business. Their power in this respect is practically unlimited. And the custodians of this power, thanks to the progress of the institution of

investment banking and the development of investment trusts, have become fewer and fewer in number, thus facilitating common action.

As a careful student of recent tendencies in corporate finance has shown, it has not been necessary for those who exercise the ultimate power of management in modern business units to rely wholly upon the quiescent attitude of a scattered multitude of small stockholders or upon such questionable and cumbersome devices as voting trusts, holding companies and communities of interest established through investment trusts.[4] These things have been and still are utilized, of course, to a prodigious extent. But the charter-mongering mania of sovereign states has provided an equally efficacious and far simpler means of assuring a substantially unchecked and irresponsible management of corporate finances by a small minority of the capital contributors. Space does not permit an adequate description of the various ways in which the structure of corporations has been adapted, not only to the extension of unified control over wide areas of industry, but also, a fact which is not so generally recognized and which is from the present standpoint more important, to the establishment of a dependent relation between the majority of owners and the privileged minority. It must suffice here to enumerate, simply, some of the ways in which this has been accomplished.

(1) By provision for non-voting stock, which participates in risk and in income, though each of these is subject to the absolute control of a board of directors not accountable to the holders of such stock but responsible solely to the holders of the small fraction of the total outstanding stock having the voting privilege.[5]

(2) By the charter authorization of the issuance of non-par stock by the board of directors upon such terms as the directors judge proper and to such parties as the directors think fit without prior offer of ratable participation in the new issue to the holders of outstanding stock.[6]

[4] See: A. A. Berle, *Studies in the Law of Corporation Finance*, Chicago, 1928. The situation in England appears to be in many respects less disquieting than our own. Cf., B. C. Hunt, "Recent English Company Law Reform," *Harvard Business Review*, VIII, 170, January, 1930.

[5] A. A. Berle, *op. cit.*, Chap. III, and cases there cited.

[6] Upon this crucial point the following three recent cases go a long way towards making the directors' power over intercorporate, proprietary relationships practically irresponsible. Perhaps the extreme position was reached in the third case cited, in which it was succinctly stated (p. 61): "It being no-par stock the amount of consideration received for it is of no moment."

Hodgman vs. *Atlantic Refining Co.*
300 Fed. 590 (1924)
13 Fed. (2d) 781 (1926)
20 Fed. (2d) 949 (1927)
Bodell vs. *General Gas and Electric Co.* (Del.)
132 Atl. 442 (1926)
140 Atl. 264 (1927)
Finch vs. *Warrior Cement Co.* (Ala.)
141 Atl. 54 (1928)

(3) By the charter authorization of the negotiation by the board of directors of binding transactions on behalf of the corporation in which one or more members of the board of directors have a private adverse interest.[7]

In specific ways like these has the legal structure of the corporation accommodated itself to the exigencies of business concentration. But we would emphasize that this line of development only carries further and makes more explicit the basic tendencies that were already evident before the renewed outbreak of the charter-mongering fever in recent years. In particular, the perpetuation of stockholding minorities in absolute control of corporation affairs through the wide distribution in small lots of the capital stock is a more significant feature of the situation than is commonly appreciated, yet it is practically inevitable under the conditions of modern corporate enterprise. Quite regardless of any deliberate changes in the corporate structure designed to concentrate executive control in fewer hands, this ubiquitous feature of corporate organization enables a few financiers to exercise a practically irresponsible management of whole fields of industry. They can determine within wide limits, through control of accounting policies, not only the amount of current net income but also the time and manner of its distribution.[8] They can sell stock in anticipation of bad reports, issued

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It might perhaps well be added that while the opinions in all these cases (as well as others which might be cited) abound in verbose declarations of the necessity of good faith, and even of the existence of fiduciary responsibility, it is seldom indeed that these principles are given effect. Such judicial declarations may not be entirely perfunctory, but an examination of the cases will convince any normally prudent person that they should not be accepted at much above their face value.

Thus in the Hodgman case, *supra,* the principle is stated (13 Fed. (2d) 781, 788): "It will thus be seen that, while an arbitrary sale of the same issue of stock at different prices to different persons would not be sanctioned, such differential sales will be sustained, if based on business and commercial facts which, in the exercise of fair business judgment [whatever that may mean!], lead the directors to follow such a course." The equivocal character of this formulation of the rule was well demonstrated in the instant case by a decision sanctioning the sale of no-par stock to the defendant at $8 per share, though it was concurrently being sold to a bankers' syndicate at $16 per share and resold to the public at $19 per share—a transaction which the trial judge, with all the facts before him, stigmatized as "deliberate fraud" (300 Fed. 590, 598).

[7] A. A. Berle, *op. cit.,* Chap. II, and cases cited.

[8] The leading case upholding the doctrine that, except in so far as expressly and clearly negatived by contract or statute, every right and interest of share-holders in net earnings is dependent upon the decisions of the directors, so long as their discretion is exercised in good faith, is: *New York . . . R. R. Co.* vs. *Nickals,* 119 U.S. 296 (1886). The doctrine has recently been rigor•usly applied in: *Wabash Ry. Co.* vs. *Barclay,* 280 U.S. 197 (1930). Moreover, the implications of the rule have not been overlooked by the courts. They recognize the risks involved in granting a carte blanche to directors to manipulate corporate finances practically as they choose, but true to tradition they naïvely admonish investors to be guided by *caveat emptor.*

Consider, for example, the closing remarks of Judge Learned Hand of the Circuit Court of Appeals in a dissenting opinion in the Wabash case, *supra,* quoted with approval by Justice Holmes in reversing the lower court decision: "I agree that directors, who generally hold common shares, may be induced to starve the preferred

only upon their authority, and they can buy stock in anticipation of good reports, issued likewise solely upon their authority.[9] They can declare dividends or they can withhold dividends, when earned, at their discretion.[10] They can fix salaries and commissions at substantially any level they consider fit, in their own interests.[11] Owing to the reluctance of the courts to inquire into the motive of decisions made in directors' meetings, when the directors at least nominally represent the interests of all stockholders, and owing to the apathy of small stockholders, there is a constant opportunity to manipulate corporate finances so as to profit most those with inside information.

Out of the foregoing circumstances it has come about that, as a class, investors are now substantially in the same dependent position relative to the managers of the corporate units of big business as the employees have long been recognized to be. What we would emphasize is that the distribution of corporate net income is actually determined not by a majority of the owners of a business, but by a constantly narrowing minority. In sum, the concentration of real managerial power in modern industry, under the joint influence of the merger tendency and recent tendencies in corporate organization, has vested a discretionary power in a comparatively few hands, not only over business policies but over financial policies. And the upshot of all this concentration of power is that investors, within wide limits, are paid upon their capital whatever the financial managers of big business think it wise to pay them. At the maximum, of course, dividends cannot exceed net earnings. They cannot, at least without violating legal obligations, be paid out of contributed capital. At the minimum, they must be sufficient, having in view the whole field of investment, to attract capital. Taking one industry with another, stockholders must be accorded a share in corporate earnings adequate to maintain their interest in and loyalty to the system

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shares in the hope of greater earnings from an increased capital, eventually taking form in greater common dividends. . . . But preferred stockholders, as well as common, accept the situation; the law has long advised them that their rights depend upon the judgment of men subject to just that possible bias. . . . Courts must not be blind, but the correction of possible injustices may come at too high a price." (30 Fed. (2d) 260, 268) Verily! Too high, that is to say, for those who might in that event be constrained to sacrifice some arbitrary power. By such sophistry did another judge long ago in a far country absolve his tribunal of all responsibility for what might happen from the abdication of its essential function.

[9] For a flagrant instance of such inside manipulation, which, though challenged, went substantially unpenalized, see: *Backus* vs. *Finkelstein*, 23 Fed. (2d) 531 (1924).

[10] See cases cited in footnote 8, *supra*. An even greater range of discretion in the board of directors over the disposition of net earnings appears to have been countenanced in *Collins* vs. *Portland Electric Co.*, 12 Fed. (2d) 671 (1926).

Cf., *contra*, *Bassett* vs. *Cast Iron Pipe Co.*, 75 N.J. Eq. 539 (1909), and *Day* vs. *Cast Iron Pipe Co.*, 95 N.J. Eq. 389 (1924); affirmed 96 N.J. Eq. 698 (1924).

[11] See: *Wellington, Bull and Co.* vs. *Morris*, 230 N.Y.S. 122 (1928); also, *Witter* vs. *Le Veque*, 244 Mich. 84 (1928); and *Thayer* vs. *Valley Bank*, 276 Pac. 526 (1929). Contrast: *Union Discount Co.* vs. *Mac Robert*, 234 N.Y.S. 529 (1929)—a veritable Ponzi case; and *Davis* vs. *Pearce*, 30 Fed (2d) 85 (1929).

of private investment for profit. But between these maximum and minimum limits, the discretionary manipulation of corporate income goes on unchallenged and unhindered. The typical stockholder, like the typical employee, depends upon the generosity and integrity of a privileged group of industrial magnates with whom he has no direct dealings, much less any personal acquaintance, for his share in the product of industry.

Finally, the consumer also has gradually fallen into a more and more dependent position relative to the managers of big business. Consumer choice has always, of course, been limited by the technical requirements of production. The range of technical possibilities in fabricating, or working up, the raw materials provided by nature is not indefinite. Even within the range of potential alternatives as to just how goods should be made up, producers have, we may suppose, commonly exercised some discretion, with a view to their own needs. But it was a fundamental conception of classical economic theory, still retained by most of its modern expositors, that consumption guided production. If a producer did not select the type or style or flavor or size of product which the consumer chose to buy he was destined to "fail," i.e., receive an inadequate return for his "pains," or his lack of pains, and his passing, we were assured, would be well deserved. Only if each producer set himself the task of discovering or, if need be, of divining the consumers' wants, and correctly solving the problem, could he succeed. The directors of production were supposed to be operating on parole under a sentence of death, terminable at will by the jury of consumers. Readjustments of the production program were admitted to take place from time to time, but these were supposed to be invariably in response to "changes in demand." And changes in demand, moreover, were conceived to come about through individual choices, sporadically and spontaneously, affecting the market at any given time only marginally.

We know now how slender is the basis of truth upon which great principles may perhaps not be originated and given wide currency but at least be retained in scientific orthodoxy long after their accuracy as broad generalizations has vanished. It has taken years of big business experience to teach us, if indeed we are yet taught, that production is not directed in response to demand but that producers "create demand." Consumers are manipulated, even as dough by the baker.[12] Their choice is directed first to this design, then to that. Purchasing power never before expended in a given direction is made to flow thence by the millions. One brand of cigarette tobacco succeeds another as frequently as slogans wear out. From Omar to Fatima, to Luckies, to Chester-

[12] There may be some exaggeration in this analogy, but before it is rejected on that ground we urge a consultation of the following: Hazel Kyrk, *A Theory of Consumption*, Boston, 1923, particularly Chapter V; and Collis Stocking, *Advertising and Economic Theory*, a manuscript shortly to be published.

fields, to Camels, to Old Golds the jaded taste of the smoker is driven in an unending chase. And the consumer is neither hunter nor hound; only the nimble hare. Toothpastes, hair tonics, automobiles, heating plants, refrigerators—all are "sold" today. They are no longer "bought." The demand for each product must be "awakened," we are told, before sales volume can be achieved. But in all this, the only concession to a venerable economic theory is an occasional terminological one. To describe the process of demand manipulation as an "awakening" is, of course, a mere felicitous falsification of the facts. Who supposes that the demand for oil burners was only dormant until it was aroused by the clarion call of the petroleum industry? Who supposes that the housewife harbored a subconscious wish for an electric refrigerator prior to the producers' urgent appeal to dispense with the old ice box?[13] The fact is that common sense should long since have led us to be skeptical of the economic theory that demand is a positive, directing force in a system of production such as that by which we now live. Only a blind devotion to principle can explain our neglect of the obvious facts.

The medium by which the consumer has been subdued, it is almost trite to add, is advertising. And the essence of advertising is the standardization of consumer taste. This was an inevitable outcome of the enlargement of productive units. And the further the tendency towards combination and concentration of control has advanced the more requisite has it become to eliminate spontaneous self-expression in the market demand. This can only be done by guiding consumer choice into definite channels and holding it there until the slow accumulation of lethargy or irritation among consumers indicates that the continued upkeep of that channel will be more costly and less profitable than the deflection of demand into a new channel. The achievement of an ever more standardized demand, making possible an ever larger volume of output from a single productive unit, and thereby a closer control of the whole economic process, depends upon factors which are by no means constant in all fields of industry. In some lines the advertiser can cultivate habits which, once formed, may with slight effort be kept in full force and vigor practically indefinitely. It is even possible under the skillful technique of habit formation for consumption choices to be so set, or fixed, as to be transmissible from one generation to the next without appreciable assistance from outside intervention. In the present

[13] It is, of course, besides the point in the present connection whether such demand manipulation is on the whole beneficial or the reverse. But the question opens up a wide range of theoretical as well as practical inquiry. See J. Viner, "The Utility Concept in Value Theory and Its Critics," *Journal of Political Economy,* XXXIII, 638. He asks, for example (p. 650): "Is it not probable . . . that the modern development of aggressive salesmanship is tending to increase the disparity between desire and satisfaction, and that commodities pushed by intensive methods of selling are overdesired in comparison to the satisfactions they will yield . . . ?"

state of our knowledge it would perhaps be rash to risk any generalization as to the boundaries of this particular field of demand cultivation. As an illustration, though, we would suggest that the demand for soap appears to be amenable to this type of manipulation. Doubtless many better examples might be given, but it suffices here to observe that the establishment of settled habits of consumption is the ideal solution of the problem of demand-control for many producers. In certain lines, however, this ideal is so far unattainable, on account of ineradicable human traits, that the advertiser is compelled to take account of this circumstance and, "swimming with the current," actually resist habit formation. In all those innumerable lines of consumption where fashion and style hold sway, the capture of a large outlet and therewith, we note again, the realization of a large output, is contingent upon successful changing of consumer demand; not upon stabilizing it. Here advertising is not less indispensable than in the field of habit formation. But it serves the same function in a different way. The one criterion by which the efficacy of all types of advertising must be judged is control of demand. If through cultivating fashion and style changes the producer can anticipate trends of demand, he can assure himself of outlets for a large volume of output. And that is enough. That alone satisfies the requirements imposed by concentration of control in productive units of ever larger compass.

The upshot of the development of advertising on a national scale and of the intensity characteristic of present-day campaigns is that the consumer in his turn, like the employee and the investor before him, has come to occupy a position of tutelage to the managers of big business. The latter, through their trained lieutenants, select for him his cigarettes, his breakfast food, the cut of his clothes, the color of his shirt, the design of his motor car, the material for his home. They even determine the size and contents of his newspaper, and the nature of his radio entertainment. It is futile to protest that in all these instances a given individual may reject any particular article or service and avail himself of an alternative more to his liking. It is true, of course, that there is hardly any type of consumption good of which there are not numerous brands or styles or "makes" in the market. But the significant and incontrovertible fact is that in the mass the great body of consumers today do not exercise a free and spontaneous choice of products for consumption. They take what is offered them, provided only the producer has been astute enough in managing his sales campaign not to tread upon any of their tender susceptibilities or fixed prejudices. That there are many enterprisers astute enough to do this, that within wide limits interest and approval can be won for previously unwanted goods, is sufficiently demonstrated by the constant growth and intensification of adver-

tising itself. If it did not pay, certainly it would not be used on the colossal scale it is employed today. But this can mean only one thing: that advertising does influence, create, restore, maintain, in a word determine consumer demand, in a substantial degree. The consumers, at least a sufficient number of them, buy what they are told to buy, so that it is no exaggeration to state that what they consume and how much of any particular type of product they purchase is prescribed by those who manage the productive mechanism.

We have only one word to add relative to the dependent status of consumers in the contemporary economic system. It may be objected that their dependence is not specifically to the managers of big business, and that the increasing concentration of industrial control has not, as such, any direct connection with the loss of real freedom and independence of choice among consumers. But if, as we have earlier suggested, the pointless issue of monopolistic power be laid aside, and attention concentrated upon the increasing size and decreasing number of productive units in most fields of industry, we think it must be admitted that the growth of intensified, national, producer advertising has been closely bound up with the evolution of giant combines, or big business. And the connection is probably more as effect than as cause. However that may be, it is certain that without a steady concentration of productive power, without the growth of big business, it simply would not have been financially possible, let alone profitable, to have cultivated the arts of salesmanship as they are today being cultivated. A business organization has to extend its facilities of production and distribution over a market area as wide at least as the potential market it is cultivating, and it has to count upon a substantial share in the total effective demand there, before it can afford to conduct an intensive campaign of demand manipulation covering the whole territory. In a word, national advertising awaited the consolidation of productive units into organizations of national and even international scope. The merger movement, therefore, fulfilled the indispensable prerequisites for the development of the economic dependence of consumers, through high-pressure salesmanship.

If the thesis advanced at the outset has been maintained by the foregoing argument it would seem that there is ground for a general and thorough-going revision of economic theory. The "Economics of Enterprise," to borrow the trenchant title of a masterly exposition of the science as it stood in the pre-war days, has served its generation. The time is ripe for an "Economics of Stewardship." The facts no longer permit us to characterize the economic system, in terms of the planetary system according to Copernican theory, as an autonomous system of numerous independent forces held in equilibrium by mutual tension. The

units of the economic system are no longer primary centers of energy. From the standpoint of control, they are passive, not active, agents in the economic process. In sum, we have evolved, while hardly aware of it, a controlled economic system. The processes of production and consumption do not go on automatically, adjustments taking place continuously and spontaneously through minute variations of supply and demand in what might be called the marginal ebb and flow of the market. Today, productive, distributive, and consumptive processes alike are consciously and deliberately manipulated by those who control the great aggregations of resources which are the most striking and distinctive feature of the modern industrial system.

The situation which has just been sketched may not readily be compressed within any set formula. It cannot be adequately represented in all its aspects and implications by a single diagram, conventional or otherwise. Nevertheless, for illustrative purposes, we venture to present two simple graphs exhibiting the effects of the conditions we have been analyzing upon the pricing process of an ordinary commodity. The solid lines, black and red, are the demand and supply curves respectively of traditional analysis. The checked black line is the demand curve showing the effect of arbitrary manipulation through advertising. Within the middle range of prices demand tends to become more inelastic --the demand curve is given a more nearly vertical slope. People would not buy less Quaker Oats, for example, at twelve cents a package, or appreciably less at fifteen cents, than at ten. The checked red line is the supply curve, showing a bulge at one extremity from the influence of other considerations than immediate gain tending to induce an expansion of supply and a bulge at the other extremity from the influence of other considerations than cost limiting supply. The net effect is to perpendicularize the supply curve, also, within what might be called a normal zone of price fluctuation. It should be explained, particularly in connection with the second graph showing diminishing cost conditions, that these supply curves are neither competitive supply curves, nor monopoly cost curves, but what may, perhaps, best be described as non-competitive or quasi-monopolistic supply curves.[14] They include, in other words, differential profits.

[14] It should be emphasized, perhaps that for instant purposes the peculiar shape of the checked SS curves is not less significant than their composition. What we are endeavoring to stress is not the importance of the precise degree of absence of competition or limitation of monopoly (Cf., E. H. Chamberlin's study of "Duopoly: Value Where Sellers Are Few," *Quarterly Journal of Economics*, November, 1929, XLIV, 63). That problem while closely related to our own is yet distinct, for reasons stated below. It is significant, however, that the conclusions reached by the leading members of what may be called the English mathematical school in reference to the determinateness of price when sellers are few lend substantial support to the conclusions here expressed. (See: F. Y. Edgeworth, *Papers Relating to Political Economy*, London, 1925, I, 111-142; Alfred Marshall, *Principles of Economics*, 8th

The general result, it is evident, is that price becomes indeterminate, within the range F-G. Thereby, too, and to that extent it becomes subject to arbitrary manipulation. In the degree that this sort of situation is generalized, the conventional method of explaining price-determination is rendered substantially obsolete. The whole paraphernalia of competitive price analysis, including the marginal utility principle, the principle of diminishing productivity, and the principle of substitution,

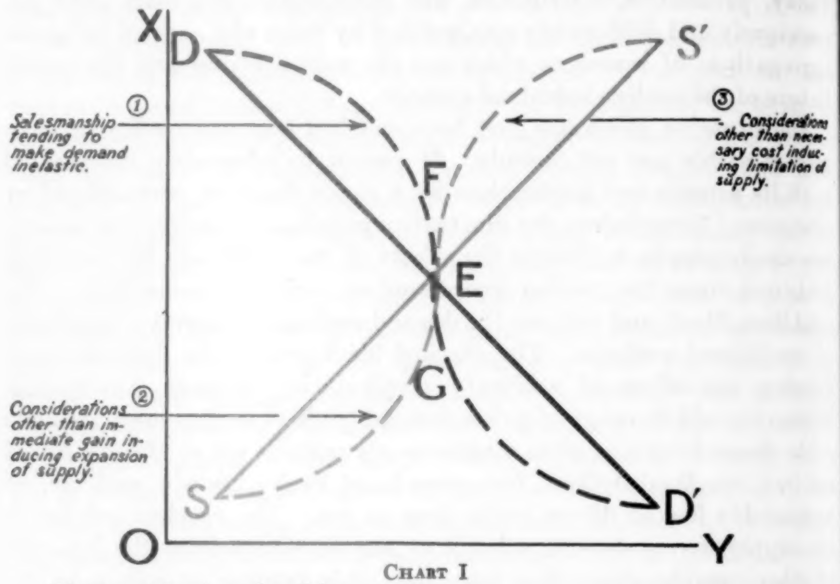

CHART I

(1) E.g., intensive advertising.

(2) E.g., acceptance of a temporary reduction (sub-marginal) return upon invested capital, in order to cultivate good-will for the company or its products.

(3) E.g., payment of high (supra-marginal) wages in order to placate wage-earners for loss of their independence, or in order to maintain consumer purchasing power.

become more or less pointless. To avoid exaggeration, however, it should be observed that these tried and trusty tools of our craft have a sharp

ed., London, 1920, in particular p. 397, but also Chap. XIV and Appendix H; A. C. Pigou, *Economics of Welfare*, 1st ed., London, 1920, pp. 232-34.) But the essence of the changed industrial situation to which we are directing attention is that by merger, association, and affiliation of trade interests there has come about not simply "conditions of monopoly" here, there, and somewhere else, but such a general, comprehensive community, concentration, and interlocking of capitalistic interests both within and among the major industries that even the tenets of the theory of monopoly are no longer applicable. For plainly this is not a situation in which the monopolist can afford to act as economic theory always presumes he will act, viz., pursue his maximum advantage. There is a responsibility upon the directing heads of this vast, interrelated industrial organization which is altogether different from the responsibilities of any single monopolist. They hold in trust, as it were, the capitalistic system of business enterprise, and they cannot be indifferent, therefore, as a lone monopolist well might be, either to the direct and tangible effects of their decisions (upon others) or to the indirect and imponderable consequences.

cutting edge still. Only their usefulness has been greatly diminished, being in fact restricted for practical purposes to the extreme zones of price variation above and below the range of price indeterminateness; i.e., outside of the range F-G.

It may well be added here that in all this there is no occasion for, and no intention of, challenging the validity of the settled principles of orthodox theory. What is challenged is only their applicability to the

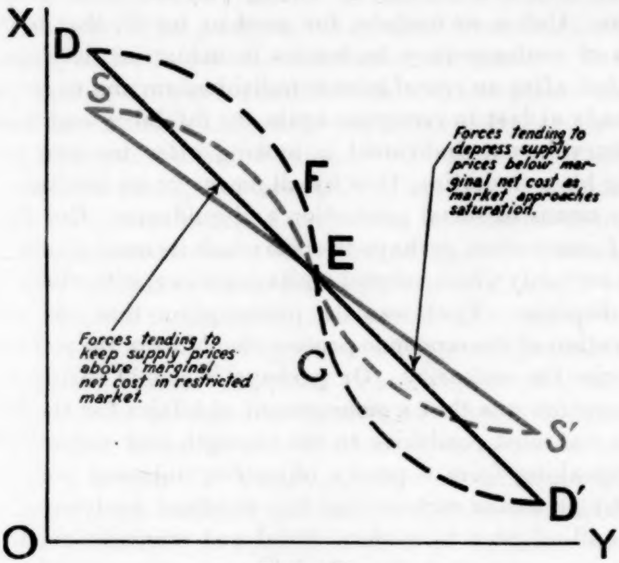

Chart II

The explanatory notes inserted on this chart are not intended to suggest the presence of different factors from those indicated in the explanatory notes on Chart I. They represent simply an alternate formulation, or description, of the factors which, as it seems to us, neo-classical economics has tended to neglect.

actual situation today. In reference to the assumed conditions, as well indeed as in reference to the practical experience in nineteenth century industry from which they were largely derived, they are unassailable. But they are applicable only with severe qualifications and restrictions to other conditions than those they premise, and these other conditions are those which now confront us.

In these circumstances, it is submitted, if we are to have an economic science which is more than a Cartesian tautology, which, indeed, analyzes and explains the actual facts and provides us with a means of mastering them, we must abandon the classical hypotheses of individual initiative and free exchange. If an historical model for the new economics is to be sought, it may be found, we suggest, in a system of economic thought with roots even deeper in the past than those that trace back to the

Wealth of Nations and the *Tableau Economique*. Mercantilism, or cameralism, furnishes the analogy and the foundation for our own "Economics of Stewardship." It posited a completely integrated, a fully controlled, a self-sufficient economic order administered by a single authority. The cardinal assumption from which every branch and principle of mercantilist theory proceeded was that the mass of men are incapable of successful initiative, and it must be confessed that in fact, so long as they were treated as wards, they did seem to be in need of guardians. Unless we mistake, for good or for ill, that is precisely the direction of contemporary tendencies in industrial development. If it be true that after an era of intense individualism and eager self-reliance we are ready at last to recognize again the fallibility and insufficiency of the ordinary human individual in looking after his own interests and mastering his own destiny, then by all means let us institute at once the necessary means of social protection and guidance. But there was one feature of cameralism, perhaps to some minds its most significant feature, a feature certainly which colored all its doctrines, with which it is possible we may dispense. That was the presumption that the authoritative administration of the economic process should be in the interests of those who exercise the authority. Or perhaps it should rather be said that the presumption was that a management of affairs for the benefit of the managers was most conducive to the strength and welfare of the whole order. Speaking from a purely objective, unbiased point of view, it appears by no means certain that this cardinal doctrine of cameralism will prove ill-adapted to modern social and economic conditions. But it is at least possible that the principle may not work today, and so on pragmatic grounds require rejection. That is one of the problems which a revivified economic science must solve.

If an analogy closer in time be sought for this new economics it should be manifest enough that it may be found in Russian communism. In the Soviets, economics is an applied science. In the United States it is in the main, today, only a theoretical discipline. But unless we mistake, the only vital difference between their concrete situation and ours is that they have established a controlled economic order by conscious imposition, while we have evolved a controlled economic order by a blindly groping reorganization of industry. Naturally the process of concentration of control has not gone as far here as it has there. But though the tendency has not been so completely fulfilled, in our case, the tide of events is evidently running in the same direction. From the standpoint of progress in the reconstruction of theory, however, economics is in a superior position in Russia to its position in this country. The self-conscious and fully sanctioned exercise of a discretionary power in the management of the industrial system makes the Soviets an ideal labora-

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tory for the testing and verification of the principles of a regulated economy. Our own faltering and tentative efforts up to now to grapple with the problem of establishing standards and principles for the fiduciary administration of an integrated industrial system seem puerile, indeed, in comparison.

It is no part of our present purpose to attempt even in the slightest measure to overcome this handicap by essaying positive contributions to the laws and corollaries of a realistic "Economics of Stewardship." This paper will have served its purpose if it awakens a realization of the need of undertaking such a reconstruction of economic theory. But we cannot forbear suggesting that two possible lines of development appear open in these circumstances. Economics might, at best, become something more in the nature of a physical science.[15] It might approach economic problems from the standpoint primarily of real costs and real satisfactions. This would involve the formulation of definite, objective standards for the measurement of welfare and of effort.[16] Presumably these would be based primarily upon physiological data, but if ethical considerations persisted in intruding themselves, as we fancy they would, there is no reason for shunning the resulting complexities. We can see no alternative but to face them. Such studies as those by Amar, Lee, and Bennett in reference to productive activity and such studies as those by Kyrk, Hobson, and Nystrom in reference to consumptive activity would indicate the starting points of economic inquiry. In connection with every economic problem the decisive considerations bearing upon the "solution" would still be those of optimum advantage or minimum cost; but the advantages and the costs would be reckoned in terms of concrete physiological reactions instead of in terms of erratic and ephemeral human judgments.

On the other hand, economic theory might, at worst, develop in the direction of a mere adjunct to business administration. Its starting point in every inquiry would, in such case, be furnished by psychological data. It would occupy itself with the human factors fixing limits of tolerance, directions of interest, and in general potentialities of manipulation. A new theory of wages, for example, would pay less attention to marginal productivity and would seek to find the theoretical basis for a voluntary fixation of wages which would at once maximize output through furnishing adequate incentive and sustain productive operations through maintenance of adequate consumer purchasing power. Such considerations, which under a bargaining economy could have had only

[15] This seems to be the anticipation of Wesley Mitchell. See his paper on "The Prospects of Economics" in *The Trend of Economics*, New York, 1924, p. 31.

[16] Cf., the paper on "Economic Welfare" by F. C. Benham, in *Economica*, June, 1930, No. 29, p. 173, wherein the need for objective standards in economic analysis is stressed, but the possibility of finding any such definite standards apart from or better than a multiplicity of *indicia* is doubted.

collateral significance, come to have, under a regulated economy, primary importance. The prospect of such a man-Friday relationship to business as a pursuit of studies along this line must involve can hardly be alluring to economists who trace their intellectual lineage through Marshall, Jevons, and Ricardo to Smith. But what is unpalatable to some may be savory to others. *De gustibus non disputandem est.*

Such, as we foresee it, will be the alternative courses for economic inquiry when economic theory comes to be reconsidered in the light of what has been learned from the study of the concrete facts of the industrial combination movement. In conclusion, we would only add that if in the course of this paper we have now and again seemed to suggest that there was nothing worth salvaging in the old economics, it was only because of a perhaps overzealous intentness upon establishing the need of its restatement. Much of economic theory as currently formulated has, indeed, outlived its usefulness and deserves a decent requiem. But if the "Economics of Stewardship" does not spring from the loins of the old science and bear a filial resemblance to its parent, nevertheless, one economist will be genuinely surprised. For a new generation of a science can no more come into being "on its own" than can a living organism. Contemporary economic thought will substantially survive in the future, even as classical economics lives on in the economic science of today.

THE PERSISTENCE OF THE MERGER MOVEMENT

By Willard L. Thorp
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What effect did the crash of 1929 have upon the merger movement? Had there been any unusual trend towards consolidation during the preceding period of prosperity? Do periods of prosperity or depression make for the concentration of industry? Or do mergers come and go regardless of the business cycle? Is there any perceptible long-time trend?

In the hope of finding some sort of answer to these questions the author continued a statistical study of the merger movement begun in connection with the report on *Recent Economic Changes*, prepared by the National Bureau of Economic Research, Inc. The basic data consist of the records of virtually every merger or acquisition which has received public notice.[1] Some consolidations may never have been mentioned in the public press or the trade journals. Doubtless many transfers of control are kept secret. However, there is no reason to believe that journalists are more astute at one time than at another, or that business men are more secretive. It is therefore a fair assumption that the record here given indicates the basic trend and marked changes in direction, if not the absolute or exact amount of the merger movement.

The tabulation was not as simple a matter as might first appear. There is no question concerning the inclusion of a merger where several erstwhile independent concerns have passed into the hands of a single corporation organized for the purpose. Many acquisitions vary from such a merger only in the fact that some one of the old concerns persists. But there are many cases which appear on the surface to be eligible but which must be excluded. Mergers of subsidiaries are but changes in form. Acquisitions of plants only, or of defunct concerns, are not real consolidations. The purchase of a branch or a subsidiary from some other enterprise does not further the concentration of industry. In deciding whether a corporate change meant that a merger or acquisition had taken place, the criterion used was, "Has there been any concentration of control? Are fewer concerns independent as the result of the event?" The data presented are called the "net number of concerns disappearing" and represent the reduction in the number of independent enterprises in operation as the result of mergers or acquisitions.

It is unfortunate that no measure of the merger movement can be obtained other than in terms of the number of concerns involved. The merger of two large enterprises, such as Autostrop-Gillette or Seth

[1] These are conveniently brought together in the elaborate clipping collection of corporation news and gossip published by the Standard Statistics Company.

Thomas-Western Clock is of less importance in the totals than the merger announced at Bivalve, New Jersey, of six oyster packing concerns into the Port Norris Oyster Company. The study has been restricted to concerns engaged in manufacturing and mining. Consolidations with foreign enterprises are not included. Mergers with or acquisitions of selling or distributing organizations are also excluded, although this tendency has been marked in recent years.

Not too much confidence can be placed in the timing of the mergers as indicated in the record. The date on which the announcement reaches the public is sometimes well after the date of actual merging. On the other hand, many mergers are reported as completed when the stockholders' vote has not yet been taken. However, these time variations are probably not significant inasmuch as the tabulation is by quarterly periods.

The results are as follows:

Net Number of Concerns Disappearing[2]

Quarter	1919	1920	1921	1922	1923	1924
I	57	209	184	86	84	110
II	82	186	99	53	67	71
III	147	188	80	82	44	87
IV	125	166	122	76	105	85
Total	438	760	487	309	311	368
	1925	1926	1927	1928	1929	1930
I	124	286	161	197	349	193
II	104	236	247	315	395	236
III	127	171	220	242	312	155
IV	175	146	213	274	160	163[3]
Total	554	856	870	1,058	1,245	747[3]

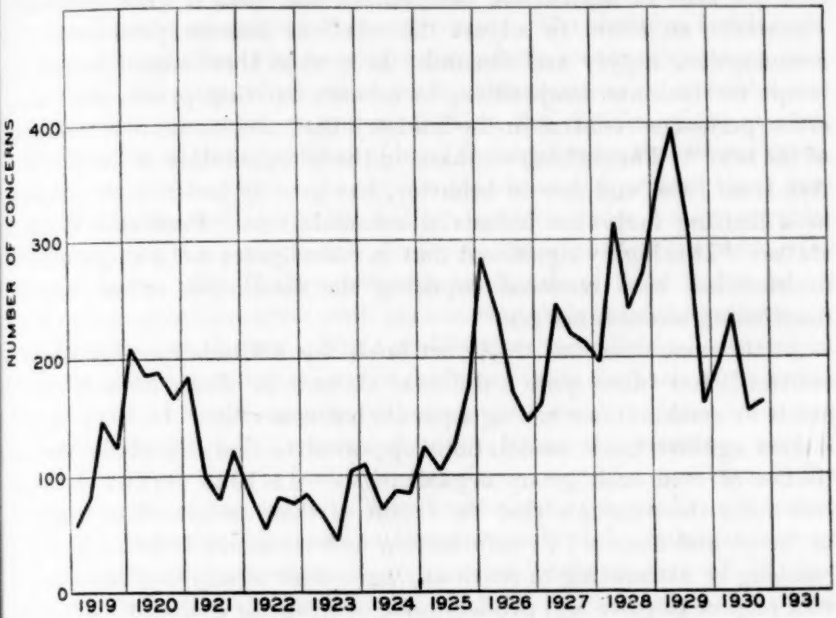
[2] For more detailed description of the method used, see *Recent Economic Changes*, I, 181-3.

[3] Estimated after December 10.

It is a most interesting statistical record. All the things that a statistician glories in, are present. There is a secular trend, a cyclical movement, and a pronounced seasonal fluctuation.

I suppose the first reaction of an individual not familiar with the developments in this field to this statistical display would be to inquire how such a degree of consolidation is possible in the country of the Sherman Anti-Trust Law, the Bureau of Corporations, the Clayton Act, the Federal Trade Commission, the "big stick" of Roosevelt, and thousands of board feet of antitrust plants in party platforms. The truth of the matter is that the Supreme Court has played a practical joke on the legislators.

The Sherman Act was passed in 1890 as the result of widespread fear that the competitive system was threatened by concentrations of wealth and power. It was emphatic and unqualified in its statement that "every combination . . . in restraint of trade or commerce . . . is . . . illegal. . . . Every person who shall monopolize, or attempt to monopolize . . . any part of the trade or commerce . . . shall be guilty of a misdemeanor." After a first decision in 1895[4] which appeared to give very little scope for the operation of the law, the Supreme Court through a series of decisions greatly extended its application. This trend reached



its culmination in 1904 in the Northern Securities case,[5] in which the scope of the law appeared to be so far-reaching that the promotors of consolidations became frightened. It seemed that every combination of concerns which had been erstwhile competitors was illegal And the structure was no defense, since the Northern Securities Company was a holding company, authorized by its state charter to own stock. This decision was undoubtedly one of the leading factors in checking the consolidation movement then exceedingly active.

This strict construction of the law was modified in 1911. The Standard Oil Company and the American Tobacco Company were both dissolved,[6] but in the decisions, the Court indicated that a new basis for

[4] *United States vs. E. C. Knight Co.,* 156 U.S. 1 (1895).

[5] *Northern Securities Co. vs. United States,* 193 U.S. 197 (1904).

[6] *Standard Oil Co. vs. United States,* 221 U.S. 1 (1911); *United States vs. American Tobacco Company,* 221 U.S., 106 (1911).

judgment would be considered henceforth; namely, whether the combination operated to restrain trade ***unreasonably*** or ***unduly***. The significance of this new interpretation to the merger movement is further emphasized in the Steel Corporation case[7] in which the Court held that "the law does not make mere size an offense or the existence of unexerted power an offense." This new position of the Supreme Court is succinctly restated by Colonel William J. Donovan, erstwhile assistant to the attorney general in charge of the Anti-Trust Division of the Department of Justice: "It is believed that consolidations may in some degree correct the evils of destructive competition and that it [the movement] represents an effort to adjust the relations between production and consumption, supply and demand. It is when these consolidations attempt to eliminate competition, to enhance existing prices, and to exercise permanent control in the industry that they constitute violations of the law."[8] The shifting emphasis in the interpretation of the Sherman Act from form and size to behavior, has greatly lessened its influence as a limiting factor on industrial consolidations. Professor Watkins states: "It is highly significant that in recent years not a single adverse decision has been rendered requiring the dissolution of an actually functioning business merger."[9]

At the same time that the Court holds this attitude towards business entities it has taken quite a different attitude in effect, towards agreements or combinations among separate business units. In 1921 two decisions against trade associations appeared to limit decidedly the activities of even such group organizations. In 1925 further decisions laid down the principle that the extent of their co-operation might be to "meet and discuss . . . information and statistics without, however, reaching or attempting to reach any agreement or any concerted action with respect to price and production or restraining competition."

But the problem still remained as to whether the rule of reason which had been applied in interpreting restraint of trade under the Sherman Act since 1911 might not also apply in these cases. If the behavior of a single large concern was to be judged according to its reasonableness, might not the same criterion apply to the behavior of trade associations or groups of concerns? This suggestion was tested in the Trenton Potteries case.[10] The court said in part:

> That only these restraints upon interstate commerce which are unreasonable are prohibited by the Sherman Law, was the rule laid down by the opin-

[7] *United States* vs. *United States Steel Corporation,* 251 U.S. 417 (1920).

[8] Address at the Annual Convention of the National Paint, Oil and Varnish Association, Inc., Atlantic City, New Jersey, October 28, 1927.

[9] Myron W. Watkins, "The Sherman Act: Its Design and Its Effect," *The Quarterly Journal of Economics,* Nov. 1928, xliii, 1.

[10] *United States* vs. *Trenton Potteries Company et al.,* 273 U.S. 392 (1927).

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ions of this court in the Standard Oil and Tobacco Cases. But it does not follow that agreements to fix and maintain prices are reasonable restraints and therefore permitted by the statute merely because the prices themselves are reasonable. . . . The power to fix prices, whether reasonably exercised or not, involves power to control the market and to fix arbitrary and unreasonable prices. . . . Agreements which create such potential power may well be held to be in themselves unreasonable or unlawful restraints, without the necessity of minute inquiry whether a particular price is reasonable or unreasonable as fixed.

The claim of the manufacturers was that prices to the public could be lower under the agreement than otherwise. The decision forbids the act per se, excluding the consideration of its reasonableness or not. In general, the acts which come under this decision as unlawful are those of price agreement, output restriction, and division of the market.

The bearing of these two lines of legal decisions upon the merger movement should now be clear. As the law stands at the present time, concerns may merge and as a result follow a uniform price policy, organize their marketing as a single unit, and allot their production among the various plants. But if they endeavor to do any of these things by an agreement among themselves while maintaining their individual existences, they run afoul of the law. The courts judge the individual concern on the basis of its actual behavior, the confederacy on the basis of potential misbehavior. A single concern will of course have a uniform price and production policy. But concerted action by several concerns, even if the sum total of them is less than the single company, and even if the ultimate result of the action will be beneficial to the public, will necessarily reduce competition and is therefore unlawful. Seldom can one find as interesting an example of judicial interpretation of the law operating to further the condition at which the law was originally aimed.

But it was the intent of the Clayton Act to bolster up and render more effective the Sherman Anti-Trust Law. How has that entered into the picture? The section which deals specifically with the problem of consolidation is Section 7, the first paragraph of which reads as follows:

That no corporation engaged in commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital of another corporation engaged also in commerce, where the effect of such acquisition may be to substantially lessen competition between the corporation whose stock is so acquired and the corporation making the acquisition, or to restrain such commerce in any section or community, or to tend to create a monopoly of any line of commerce.

It has taken twelve years to define clearly the significance of this section. It can best be presented by reporting certain cases.

In a case against the Aluminum Company of America, the Circuit Court of Appeals for the Third Circuit, in 1922, upheld the Commission's order that the company divest itself of certain stock acquired in violation of Section 7[11] and petition for review was denied by the Supreme Court.[12] The practical effect of the judgment was destroyed, however, by a decision of the same court in 1924, denying the request of the Commission to modify the decree so as to prevent the Aluminum Company from bidding in at sheriff's sale the physical property of the acquired corporation in satisfaction of a debt which the Commission unsuccessfully contended was fictitious and fraudulent.[13]

In 1926 three Section 7 cases reached the Supreme Court and were argued together.[14] In the Western Meat case, the Supreme Court affirmed the original order of the Federal Trade Commission, prohibiting the acquisition of physical assets through ownership of illegally acquired stock. The Court stated that "the purpose which the law makers entertained might be wholly defeated if the stock could be further used for securing the competitor's property." In the other two cases, by a five to four vote, the Court set aside the order of the Commission on the ground that the statute referred to the acquisition of stock, and not to the acquisition of property even if obtained as a result of an illegal acquisition of stock. These two cases differ from the Western Meat case, noted above, in that the acquisition of physical property had been completed before the Commission filed its complaint, while in the first case, the acquisition of physical property had not been consummated when the Commission's complaint was filed.

The net result of these decisions is that a corporation may purchase stock of a competitor in violation of Section 7. If it can succeed in voting the stock thus illegally acquired so as to complete the acquisition of physical assets before the Federal Trade Commission discovers the situation and files a complaint, then the consolidation is beyond the power of the Federal Trade Commission. Concerning the situation, the Federal Trade Commission states:

There is usually a substantial lapse of time between the commission's preliminary inquiry and its issuance of a formal complaint, within which offending corporations may take steps to acquire the physical assets. . . . So far as the commission is concerned, it is a question whether the effectiveness of the act to fulfill the purpose of Congress has not been materially lessened by these decisions. While this is true, it should not be concluded

[11] 284 Fed. 408.
[12] 261 U.S. 616.
[13] 299 Fed. 361.
[14] *Federal Trade Commission* vs. *Western Meat Company, Thatcher Manufacturing Company* vs. *Federal Trade Commission, Swift & Company* vs. *Federal Trade Commission*, 272 U.S. 554 (1926). The Eastman Kodak Co. case follows these decisions as a precedent.

that the deterrent effect of the law is entirely nullified. Mergers of corporations by transfers of physical assets are of course far more difficult to accomplish than consolidation through purchase of stock. The practical difficulties attending the former have doubtless prevented many consolidations which would have been accomplished by purchase of stock save for the prohibition of this section.[15]

Some idea of the actual working of Section 7 can be obtained from the report of the Federal Trade Commission for the year ending June 30, 1929. Some 200 inquiries into acquisition matters were completed during the year. Of these 196 were filed without docketing indicating that only 4 were held to be legally defendable. In many cases the combination studied proved to involve extension of territory or the addition of non-competing products rather than a combination of competitors. However, slightly more than one-half of the complaints which were filed were dropped because they involved the acquisition of assets. In 10 per cent of these cases this had been accomplished by a previous illegal acquisition of stock and in an equal percentage of cases by cash consideration. Certainly Section 7 is not to be included as a significant limiting factor on the merger movement.

A new element was injected into the legal treatment of industrial combinations in 1926 when the Department of Justice adopted a new policy of dealing with consolidations. Basically, it consisted of preventing violations rather than prosecuting them. This new development is authoritatively described by Colonel Donovan, in whose hands rested the administration of this branch of the work of the Department of Justice:

> Too often in the past corporations have been formed with no inquiry into their organization by governmental agencies. Either by deliberate purpose or by natural result these corporations attained monopolistic positions. Governmental intervention was invoked only after these concerns had been established and had been woven into the economic fibre of the country. A long process of inquiry and litigation followed. At times, even where evidence has been adduced sufficient to warrant a decree of dissolution, that decree has proven inadequate to restore the original status, or when effective has resulted in the disruption and dislocation of the industry. With that experience in mind the Department of Justice now endeavors to apply what seems to be a practical and intelligent method of meeting the problems presented by proposed combinations. Mergers are inquired into at their inception. Their financial structure, their purpose and their economic background are examined before they enter into the field of business activity and the question of whether they would be violative of the law is considered before a violation has been committed. This method is at once fair to the business men who desire to avoid conflict with the law, and who are entitled to know

[15] Federal Trade Commission, *Annual Report*, 1927, p. 14.

the attitude of the government towards their effort. It is effective also in preserving the public interest by ascertaining the facts and assuring that illegal combinations shall be dealt with at once.[16]

In other words, the Department of Justice, beginning in 1926, examined every important merger before actual realization, for threatened violation of the antitrust laws. This policy came to be so generally accepted by promoters and investment bankers that it was virtually part of the procedure of merging to submit data concerning the plan to the Department of Justice. The Department did not in any way give positive approval of any merger, but reserved the right of further observation and investigation. Rather, its action was one of finding no cause for disapproval in the facts as given, or the purpose as stated. The Department of Justice in some instances investigated the industry as a whole, obtaining information from competitors and impartial observers as well as from the proponents of the merger. A special corps of men, including economists, was developed to deal with these problems.

No information is available concerning the number of proposed mergers which have been still-born or modified at the suggestion of the Department of Justice. However, the success of the Department in defending its claims in court upon the inception of this policy in 1926 undoubtedly added greatly to the weight which its opinion carried. The best known case dealt with the Ward Food Products Corporation, which proposed to acquire the Continental, General and Ward Baking Corporations. The government suit was brought February 8, 1926, less than two weeks after the company had filed its incorporation papers, and a consent decree was entered on April 3.[17] The decree dissolved the new corporation and included permanent injunctions against common control either by stock ownership and interlocking directorates or by future understandings and agreements concerning prices, terms of sale, purchase of supplies, and the like. The decree is based upon violations of both the Sherman Act and Section 7 of the Clayton Act. The petition refers to undue and unreasonable restraint of trade, intent to monopolize, and the purchase of stock resulting in reduced competition.

Similar success met the government in its attack upon the National Food Products Corporation, a holding company formed to combine competing chain-store groceries and other companies engaged in the distribution of milk and other dairy products, ice cream, etc. On November 10, 1925, amendments were filed to the charter of the original corporation which were to make possible the above consolidation. The government petition was filed February 13, 1926, claiming restraint of trade and tendency to create a monopoly. By a consent decree entered March 4, 1926,

[16] Address at the Annual Convention of the National Paint, Oil and Varnish Association, Inc., Atlantic City, N.J., October 28, 1927.

[17] United States District Court of Maryland. In Equity No. 1073.

the relief requested by the government was granted.[18] Likewise, action by the Department of Justice forced the Rand Kardex Bureau, Inc., to dispossess itself of the stock of Globe Wernicke Company, although it was permitted to retain certain other stocks which the government had included in its complaint. The National Gum and Mica Company, which had acquired stock in the General Adhesive Manufacturing Company, was forced to relinquish its holdings, by a consent decree dated May 27, 1927.[19] These four cases were sufficient to indicate that there were teeth in the new policy.

There is no way in which an outsider can learn how many mergers have been disapproved by the Department of Justice. In many cases it is known that original schemes have been modified to meet objections reached by the Department. This new policy, by removing a large element of uncertainty concerning the attitude of the government from the field of the promotion of mergers, has undoubtedly done more to encourage rather than to discourage the movement.

Having shown that it is possible for this curve to exist in this country (in fact that the legal situation is one of the causes for its existence), there are now certain aspects of it which I wish to call to your attention. I have already suggested that the timing of the data is not to be regarded as exact. Nevertheless one cannot help but be struck by the degree to which the merger movement corresponds to the business cycle. Industrial concentration appears to proceed most rapidly in periods of prosperity and to show a marked decline during depression. The cycle of 1918-20, registered itself clearly in the number of mergers or acquisitions. The general depression of 1921 was also a depression in the merger movement. If we follow the record on through the succeeding quarters we might even persuade ourselves that the minor recessions of 1924 and 1927 could be seen. However, the important demonstration is that of 1928 and 1929 when we find an extraordinary boom in mergers rising to a peak in the second quarter of 1929 and falling sharply in the last half of the year. The depression still continues. Why should the merger movement follow the business cycle so closely? I can only make certain suggestions.

One important element which stimulates the merger movement in time of prosperity is the condition of the money market. Many mergers, and some acquisitions, involve the flotation of new securities. In periods like 1928 and early 1929, when there is almost an insatiable demand for securities, the merger movement will be certain to flourish. Its most active sponsor is the investment banker. Reputable business houses merely carrying on their business under their existing organization bring

[18] United States District Court of Southern New York. In Equity 35-261.
[19] United States District Court of Southern New York. In Equity 40-276.

a very slight volume of new securities for the banker to handle. But if they can be brought together into a new organization it may mean a large flotation of stock. During 1928 and 1929 some investment houses employed men on commission who did nothing but search for potential mergers. One business man told me that he regarded it as a loss of standing if he was not approached at least once a week with a merger proposition. A group of business men and financiers in discussing this matter in the summer of 1928 agreed that nine out of ten mergers had the investment banker at the core. The fact that the public will take the securities makes possible a sharing of the increased capitalization between the banker and the original owners and makes the owners willing to join the merger even when they can see little technical advantage to be gained from the new organization. This is undoubtedly the explanation for many of the larger mergers during periods of prosperity. It cannot explain variations of as extensive amplitude as are shown in our records.

A more significant factor is undoubtedly the large profits which many concerns have made during the period of prosperity, combined with the decision to use them for expansion rather than to distribute them to the stockholders. This desire for expansion is usually stimulated by the immediate demand and the prospective profits. The business man may have more orders on hand than he can fill. He may be hampered in obtaining materials or accessories and wish to expand vertically or diagonally. It is a situation in which he is naturally impatient and if he has the funds or the investment banker will let him have them at favorable rates, it is rather to be expected that he will expand. The expansion may take the form of building a new plant but it is quicker and simpler to buy an existing plant. There are still further advantages in buying an existing concern which will bring in not only the increased facilities but a going organization and new business connections. It is not surprising that the "expansiveness" of the business man during periods of prosperity often expresses itself in the merger movement and larger business organizations.

A third point which should be suggested holds true for certain branches of industry—those in which some element of price control exists actually or potentially. In many instances a merger or acquisition creates local and partial monopolies. If the only two ice houses in a given locality combine, they thereby acquire a monopoly. If one of the large dairy chains takes over all the creameries of a particular region it acquires a monopoly. If the various sand and crushed rock companies of a region combine they establish a monopoly. And a monopoly is most significant in times of prosperity. As some one said not long ago, "Who cares whether the price of copper is eight cents or twelve cents if no one is buying copper?" Price control is important when there is a volume of

business. Price control is desirable in a seller's market. It is in times of prosperity that the elimination of competition is most profitable.

The question of the cyclical character of mergers, however, merely leads us back to the more general question of why mergers are formed anyway. The movement is quite clearly a persistent one. There is no indication that it is dying out. In 1929, at least 1,250 concerns were swallowed up through mergers or acquisitions. The number of concerns involved in mergers in the depression of 1930 was nearly three times the number in the depression of 1922.

The classic explanation has always been "the economies of large-scale production." There can be no question but that in many cases this is the basis for mergers. In many instances concerns are operated on an extremely small scale far below the normal in their industries and through merger with another company can accomplish much in the way of reduced costs. In many instances the business man finds that he can accomplish savings by a process of vertical integration in which he no longer has to go into the market to buy his raw materials or to compete for outlets. There are many instances of this sort of technical gain and I should be the last to decry them. But it is important to remember that there are costs which accrue to size as well as economies. The statistical evidence which we have at hand indicates that the cost advantages do not always rest with the largest concern. In fact the majority of the studies which I have seen show that in most industries the largest concerns are not the companies which are operating at the lowest cost of production.

The explanation of the rising secular trend is not to be found so much in the facts of production as in the field of marketing. The problem of the present-day business man is much less to produce his products than to sell them. In many cases it seems to be true that the large concern is more effective in its marketing. It is not necessary to demonstrate that it is more economical. The point rather is that it seems to be better able to win and hold the public than its somewhat smaller competitors. It can use national advertising. It can deal with larger merchandising units. And it can offer a variety of products each of which may support the others. In many lines, marketing effectiveness appears to call for large size even more than productive economy. One need only to survey the character of recent mergers to note many instances of the recognition of the market as the center of a consolidation. The grouping of concerns providing quite dissimilar articles to the grocery trade is a familiar illustration. Similar combinations are organized to supply building materials, drug store supplies, farmers' equipment, and the like.

Under the head of the increased importance of marketing as a cause

of mergers, one must also note those cases where the purpose is to change the character of the market. There are, of course, the out-and-out attempts to eliminate competition and establish some degree of price control, at least within restricted areas. There is also increasing recognition of the fact that competition within an industry is merely an attempt to redistribute sales, and that if one concern gains, another is bound to lose. As a result, inter-industry competition is becoming more and more explicit. This brings the various members of an industry together in a common cause. It is doubtless a force working toward consolidation.

It is not my intention to discuss at length the marketing aspects of the merger movement. In fact, it is introduced solely as a reason for believing that the merger movement, other things being equal, will continue on its rising trend. There is nothing in the immediate offing to indicate that the problem of marketing is not going to become increasingly difficult. Certainly, a period of falling prices will make the struggle for the consumer's dollar more and more severe cut-throat competition has always lead to combination.

This study has referred to the consolidations in manufacturing and mining. It is, therefore, only a partial picture of the merger movement. The most conspicuous trend toward consolidation in recent years has been in the field of public utilities. Nearly as vigorous has been the growth of chain stores in retailing and the continual merging of chains into larger chains. Hotels and hospitals, school districts and colleges, all have joined the movement. The motion picture industry has become integrated, with only a handful of producers, and perhaps one-half of the motion picture theatres in the country owned and operated by the large producers and distributors. The banking fraternity was slow and conservative in joining the trend toward consolidation, but the years 1927-29 saw unprecedented mergers among commercial banks.

There has been an amazing shift in public attitude towards the concentration of economic activity since the years before the war. Certainly, from 1890 to 1914 it was the prevailing opinion that any such trend as that outlined above was contrary to the interests of the public. Today the only persons who appear to be disturbed by the announcement of the merger are those directly involved whose jobs or income may be threatened.

It is difficult to determine whether economists have shared in this conversion or not. Our teaching and writing in the field are still so obsessed with the scandals of the nineteenth century and the finer points of the position taken by each supreme court justice in the various cases that we have said little about the significance of the present merger movement. The present movement raises certain new problems. For example, busi-

ness men are asking for relief from the antitrust laws that they may stabilize their industries. In general, by this they mean stabilize prices. And by this they mean eliminate downward price movements. Professor Berglund has suggested that in the iron and steel industry the relative stabilization of price in recent years has resulted in wider fluctuations in production. May we, therefore, draw the conclusion that concentration of industry will amplify rather than reduce cyclical fluctuations, will increase rather than reduce cyclical unemployment? Such economic and social implications of the modern merger movement are extremely important, for there is every reason to expect the merger movement to go on in increasing proportions in the future.

THE MODERN MERGER MOVEMENT—DISCUSSION

Charles A. Gulick, Jr.—For reasons already made clear it was impossible for Professor Thorp to provide me with a complete draft of his paper. Consequently, my observations have been prompted by the paper of Professor Watkins.

With his general thesis I am in complete agreement: "Economic adjustments are not, actually, made as theory teaches." Furthermore, I take it that a substantial part, probably a majority, of the members of this Association are not satisfied with the available formulations of economic doctrine, either as an adequate explanation of the economic aspects of the world we live in or even as a statement of "tendencies" which we are willing to defend only as such to the students who come to us.

Professor Watkins has, of course, in a paper of the character and brevity of that presented here, made no effort to formulate a "new economics." Meanwhile I should like to direct attention for a moment to certain particular points made in his paper.

In addition to agreeing fully with the central idea, I concur with that part of the analysis relating to investors and consumers. Nor have I any quarrel with the suggestion that recent activities of many business leaders in maintaining or even advancing wages through a period of "steadily mounting unemployment in manufacturing centers" pose an almost unanswerable question for the orthodox wage theorist. But in one very definitely formulated conclusion I should like to suggest that possibly Professor Watkins has relied upon too short a period of time and confined his observations too narrowly to the American scene. For, to quote his own language, he "insists not only that the underlying conditions which favor the rise of mergers also disfavor the growth of trade unionism, but also that the development of mergers is itself a factor weighing against effective collective bargaining and thereby against successful unionism." Granted that the old trusts in tobacco and steel, for example, have done a very thorough job in eliminating unions from their plants; granted that the merger mania of the past decade has coincided with a marked decrease in the dues-paying members of most unions. It remains true, however, that under pressure of war-time necessities and what may fairly be termed direct encouragement of the federal government, American unions enjoyed a period of growth probably unequalled in their development. The history of unionism here and abroad is replete with violent fluctuations in membership. A decrease after 1920 was to be expected. Moreover, the very willingness of "big business" to maintain wages, after the drastic cuts instituted in the "open shop" drive following the armistice, materially lessened the major motive impelling union membership.

A more important fact leading me to question somewhat the conclusions insisted upon, however, is the German experience. As is well known, German industries have over a longer period and to a greater extent than those of other nations exhibited that tendency toward "business guilds" of which Professor Watkins speaks. It is possible that he would insist here on his distinction between mergers and consolidations on the one hand and pools and

cartels on the other, and remind us that in the statement quoted he said "mergers," and meant mergers only. It may be noted, however, that he has stated that his discussion would relate to "big business primarily, rather than to monopolies, either corporate or collusive, as such." And unless I have misunderstood his language, his discussion of trade unions has been concerned with the impact upon them of "big business" or "business guilds" rather than of mergers strictly defined. As suggested, however, the German working-class movement has developed great strength both economically and politically at the same time that cartels have developed. This situation seems to justify some doubts as to the general applicability of the conclusion upon which Professor Watkins insists.

Finally, on this matter of labor organizations, I should like to supplement the analysis made a little further by reference to certain legal and political aspects. As is well known, the Anti-Socialist Law of 1878 in Germany greatly handicapped the unions of that country and to a considerable extent forced the working-class movement into political channels. The Social Democrats increased their voting strength from less than half a million to nearly a million and a half by 1890. In that year the Anti-Socialist Act was repealed. The trade unions counted only one hundred twenty-one thousand members then. Subsequently as stated before, despite the fluctuations common to all countries, they have shown a remarkable growth during a period in which cartels and "big business" were also growing.

In the United States adverse court decisions brought the members of the A.F. of L. to a sufficient state of exasperation in 1922 to denounce the Supreme Court in the bitter terms of the following resolution: "What confronts the workers of America is not one or several casual court decisions favoring the interests of property as against the human rights of labor, but a series of adjudications of the highest tribunal of the land, successively destroying a basic right or cherished acquisition of organized labor, each forming a link in a fateful chain consciously designed to enslave the workers of America."

In varying degrees a considerable number of our most distinguished political scientists, economists, lawyers, and judges have supported this adverse judgment of Supreme Court decisions affecting labor.

But in May of this year, in the case of the *New Orleans and Texas Railroad* vs. *Brotherhood of Railway and Steamship Clerks*, the Supreme Court unanimously interpreted the Railway Labor Act of 1926 in a manner which Professor Berman of Illinois, among others, construes as a practical reversal of the Adair and Coppage cases. Perhaps without undue optimism one may hope that this decision marks the beginning of a more liberal trend in legal decisions affecting labor combinations somewhat analogous to the oil and tobacco decisions of 1911 affecting industrial combinations.

In fact, one might even hope for just such a change in the attitude of "big business" toward labor combinations as we have witnessed in the general attitude toward business combinations. The union-management co-operation plan of the Baltimore and Ohio and other railroads may be only the exception which proves the rule; the industrial relations systems may be as insidious and damnable weapons for destroying bona fide unions as their sever-

est critics maintain. And yet it must be noted that the co-operative plan has spread, and that the employers in substituting "company unions" for craft unions have probably made the organizing campaigns of future industrial unions much simpler.

So much for particulars; now to turn to a general conclusion which seems to follow inevitably from Professor Watkins' analysis, though he did not choose, from lack of time or other reasons, to state it as precisely as I should like. It will be recalled that he has stated that almost without realizing it we have come to live in a "controlled" economic society. Elsewhere in the paper he has contended that this control "is not a consequence of any piratical designs or predatory schemes" or "exceptional merit or foresight" on the part of the individuals at the controls, but "simply that the technical requirements of modern industry impose an ever-expanding scale of organization, and under a system of private property and free enterprise some fortunate individuals are bound to fall heir to the power which this concentrated organization engenders." Here there seem to be some concessions to the "apprehensive apologists" for the present day controllers, since in his *Industrial Combinations and Public Policy* (page 30) Professor Watkins has told us that in the earlier period of trust formation "antisocial activities . . . flourished like Australian jack rabbits." As he pointed out there, however, the prevailing code of the latter half of the nineteenth century was somewhat different; the "Better Business Bureaus," the Federal Trade Commission, and other agencies have brought about improvements. And yet the *pronunciamentos* of certain recent merger makers are strangely reminiscent of those of a preceding generation. Perhaps the difference can best be summarized by contrasting the statements of the organizers of the old oil trust with those of the promoters of the United States Fly-Swatter Corporation which failed of realization at the last moment because of the stock crash of 1929. Mr. Rockefeller, Sr., it will be recalled, stated bluntly on a number of occasions: "The oil industry belongs to us." The promoters of the fly-swatter merger were less direct. They argued somewhat as follows:

The fly-swatter business, because of seasonal fluctuations and destructive cut-throat competition, is not able to provide the American public with a sufficiently good article at a sufficiently low price over a period of time. We must integrate our business. We propose to acquire iron ore and coking coal mines, limestone quarries, and pine forests. We shall erect the finest blast and open hearth furnaces in the world. We control a patent which will enable us to make the wooden handles for our fly-swatters at a cost of three-tenths of a mill cheaper than has heretofore been possible. Most important of all, one of our chemists has discovered a preparation which has the same affinity for a fly's wings that iron has for a magnet. All of our swatters will be treated with this compound so that it will be a practical impossibility for anyone to miss a fly with one of them. As a result even the housewife who has never received three semester hours credit for "Indoor Baseball 198" at her state university will be able to swat a fly with her left hand and continue to stir the baby's cereal with the right. And our swatter will be so cheap that the poorest immigrant family in New York and the most shiftless tenant farmer in Texas will be able to afford one for every room. Within two years we expect that the death rate from typhoid will have decreased to the vanishing point and in a decade that flies will have been eliminated from the North American continent. But we do not propose to retire on our profits considering that we have made a sufficient con-

tribution to human progress and welfare. Our engineers have devised machines that will produce fly-swatters as long as they are needed, but which can be so altered on thirty-six hours notice that they can turn out the finest shredded wire biscuit you ever ate. One serving of this product, costing only one and one-tenth cents, will put more iron in your system than two hundred dollars worth of California Sun-Maid raisins!

Partly because I am not so optimistic as might be inferred from some preceding statements, I do not believe that sort of foolishness any more than Professor Watkins does or than he believes some of the fairy tales in our standard elementary texts in economic theory. No more than he, do I wish to deny the value of theory. But I want to insist that the most important contribution which theorists can make is to provide a set of principles which will aid us in the solution of current economic problems. If Professor Watkins is correct in holding that under the technical conditions of modern industry and a system of private property and free enterprise "some fortunate individuals are bound to fall heir to the power which this concentrated organization engenders," then not only do we need to revise our theory, but we need also to revise our system of control. We need control not by "some fortunate individuals" but by the social group. Perhaps it might be better to say a greater degree of social control than now exists. Specifically that means, for example, federal incorporation of "big business" under a statute embodying the best features of the German and English laws to put a stop to the charter-peddling activities of such states as Delaware and Nevada. It means a further change in our antitrust policy to permit combination and regulation of production in such industries as petroleum and bituminous coal and to stop the criminal waste of those resources. It means the adoption of some sort of a "rule of reason" toward the activities of trade unions so that the legal handicaps now restricting them may be removed. Progress along these lines has already been made. We need to continue it. Laissez faire under modern technical conditions means unrestricted submarine warfare. Enforced competition is a futile ideal. Regulated competition is still possible, but in a narrowing area of economic activity. We are, in fact, living in a controlled economic society. Consequently, it is at once our task and our opportunity as scientists and as public spirited citizens, not only to revise our theory, but also to aid in making certain that the control exercised shall be a conscious purposive "social" control.

Chester W. Wright.—I quite agree with Professor Watkin's point, further substantiated by Professor Thorp's paper, that the merger movement is steadily spreading and that we need to give more attention to both the theoretical and the practical aspects of the problem. The first paper seemed to me somewhat to exaggerate both the extent and the amount of the power exercised by mergers but I take it to have been due to the laudable desire to impress upon us the importance of the problems involved, an objective with which I must sympathize.

The first of the three points which I wish to make is to call attention to a group of combinations which seem to me to be of rapidly growing importance, though their existence has been almost totally ignored in the more scientific writings upon the problem. I refer to the innumerable local combinations

that have developed so rapidly of late in most of our larger cities. In the absence of adequate data it can only be a surmise, yet I suspect it is quite possible that the inhabitants of our large cities pay as heavy a toll in the form of monopoly profits to these local combinations as they do to all the great national combinations put together. Though some of these combines are strengthened by affiliations with national organizations, as in the case of the building trades, the great majority find their chief strength in the local organization. The methods employed at least by some of them are reminiscent of the earlier days of the National Cash Register Company, the Standard Oil Company, or the "night riders" of the Kentucky tobacco pools; they are methods such as few if any national organizations would dare to countenance today. In Chicago we certainly have several score of such combinations and though the popular impression seems to be that that city is striving for a monopoly of crime in general it is only too evident that in this form of crime, as well as in others, there are numerous large cities which stand in no danger of being outdone. One of the most discouraging features in the situation is that so little is being done to attack the evil in an effective way. Local authorities have little power, the federal authority is severely limited, and the state authorities are apathetic or too busy with other work. Parenthetically it might be added that the function of the various states in dealing with the combination movement is another topic which has been too generally ignored. The phenomenon of the local combination is not a new one—some date back thirty years or more; but the rapid development in the last decade or so is to my mind one of the outstanding features in the recent combination movement. It is too important to be ignored in discussions of the problem.

The second point I wish to make is simply to raise the question whether, in our desire to secure greater stabilization of industry, there may not be a danger of granting too much leeway to combinations? The events of the last decade have led us to stress the importance of stabilization and to devote more thought and energy to the problem than ever before. Exactly what is assumed to be included under the term is seldom made clear though the things that might be stabilized are varied. We must first determine what sorts of stabilization are desirable and how far we wish to carry the process. Then, so far as combinations enter into the problem, we must analyze the situation to see just how far the various types of combination can really contribute to the desired end. The conclusion reached by Professor Thorp in an earlier study, that while large corporations show more stable earnings than smaller concerns they have wider fluctuations in production and employment, will illustrate my point that the problem is more complex than is often assumed. We must therefore inquire how far it is actually necessary to allow various types of combinations and the different practices usually employed by them, in order to secure such desirable kinds of stabilization as cannot otherwise be obtained. In certain industries, notably those producing coal and oil, the possible gains appear to be great; but these are hardly typical and each industry will require separate study. My fear is that in the present-day enthusiasm for stabilization we may exaggerate both what it is desirable to accom-

plish and what can be accomplished through combinations and thus be led to grant greater freedom of action to combines than the results, with the accompanying dangers, will justify.

My third point concerns the need for more facts. It is my impression that in the rapid changes of the last fifteen years we have lost rather than gained ground in our gathering of significant facts concerning the current combination movement and its policies and practices. I doubt whether we know as much about the combinations of today as we did fifteen years ago about those of that time, and certainly that was little enough! For this the government is primarily to blame. The Federal Trade Commission or its predecessor, from whose reports we secured much of our most valuable data ten or twenty years ago, has turned out relatively few reports dealing with combinations, the utilities excepted, which are as useful as those on the oil, tobacco, and other trusts made in its earlier years. Furthermore the material gathered as a basis for its decisions is not generally available. Also the court proceedings of the last decade have brought forth less useful information than those during the more active period of trust-busting. In consequence the current literature upon the problem, in so far as it attempts to deal with the really fundamental economic issues involved, such as the effects of the different types of combination and their various policies upon prices, wages, quality of product, efficiency in production, individual initiative, etc., has to fall back in the main for its detailed evidence upon conditions and events preceding the World War. When dealing with post-war developments concerning these issues the discussion is likely to become vague and general. There is plenty of literature upon the interpretation of the antitrust laws —all the material is readily available in court decisions—but the crucial issue is what the law ought to be rather than what it is. Economists have struggled valiantly with the meager data available but the task is a discouraging one and there is little evidence of any serious move on the part of the government to remedy the difficulty. The demand for a revision of our antitrust legislation is growing. If the government hopes to attack the problem in an intelligent manner it must first act to provide up-to-date factual material dealing with the essential economic issues involved. And this cannot be secured overnight!

William Orton.—For an Englishman to look back upon the Marshallian economics of his youth after eight years' experience of America is an interesting exercise. Both the data and the theorems of the neo-classical school acquire, as Mr. Watkins has shown, a certain air of remoteness. The exceptions, the incongruities, the "bad-fit" cases, occupy so much of the foreground that the "principles" seem rather irrelevant to the problems. Two considerations however must be borne in mind before deciding on a radical reconstruction of economic theory.

We must not, in the first place, picture the traditional economics as a swivel-chair system in contrast to our present efforts at realism. Smith, Ricardo, Malthus, Mill, and Marshall were all of them practically-minded men, actively concerned about practical problems with such material as lay to their hands. The difference in our own position arises largely from the

enormous increase since the war in the supply of data for inductive work—data which the classicists would have been only too glad to use if they had had them, and which are still far from that form or fineness which really inductive economics demands.

The second consideration is of more than historical significance. The classical school, as its name implies, tended under the influence of nineteenth century science to neglect the dynamic elements postulated within its own system. This I shall briefly illustrate in two respects.

Take first the familiar quest for increasing returns in manufacture. With a protected domestic market of enormous size, the first goal of this quest—decreasing physical expenses of production—was bound to be impressive; we may place it in America about the turn of the century. But as the process goes on, entry to the major industries on a scale adequate to make competitive existence possible becomes less and less easy for the classical type of entrepreneur, forcing him to rely more and more on the intermediaries between the investing public and the would-be producer—the banks. This fact has largely determined the development of investment banking in America. As a consequence, control of the course of industrial development has shifted to a marked degree from the actual entrepreneur, whose business it was to know thoroughly a specific market in terms of physical supply and demand, to agencies concerned mainly with financial questions of capitalization and net return. Theoretically perhaps this should come to the same thing; practically it does not. The effect of diminishing physical costs, so far as it is still realized, tends to be taken out in capitalization rather than released to the consumer under the stress of competition, a fact which was strongly illustrated in the easy days of Coolidge prosperity; and the expansion of the market for goods becomes less evident than the expansion of the market for securities.

Second, consider the factor of adjustability, of dynamic equilibrium in the position thus arrived at. This matter was very well exemplified a few years back in an argument before the Commerce Commission in connection with through export rates for steel. A fall in the demand, tending naturally toward increased unit expenses of production, becomes a much more serious thing under the conditions of high capitalization characteristic of American industry today. It renders price-shading more difficult at the very moment when it is most necessary, and diverts working capital to the risky business of attempting to control the situation from the consumption end. A new type of inertia is introduced—the inertia of the capital structure rather than that of the physical lay-out. And we have the spectacle of expanding investment in the foreign field designed ultimately to maintain the purchasing power necessary to the financial scale of American industry, under conditions which render a complementary flow of goods and services to this country as difficult as possible. Whatever else may be said of this development, the risk-burden of even small fluctuations in world equilibrium is certainly not diminished by it.

Now in both cases here suggested we are merely drawing out the dynamic implications of neo-classical doctrine. But the net result is to introduce a

new type of financial inertia into the system and to place a new emphasis on the question of stability. Some very interesting figures recently published by the National Bureau of Economic Research show that, contrary to popular opinion, the proportionate importance of interest and dividends in relation to earned incomes is very little different—in some cases less—than it was fifteen to twenty years ago. But the effect of instability on general purchasing power has undoubtedly increased. The inevitable result is a widespread demand for mitigation of the antitrust laws. The encounters of the oil industry with the attorney-general's office are common knowledge in this connection; but as far back as 1925 the Secretary of Labor was discussing the question in connection with the coal industry, and the same issue is now being agitated in regard to the provisions of the White Act forbidding wire and wireless mergers.

This last case, however, illustrates very well the essential difficulty. In the writer's opinion, no relaxation of the antitrust laws is feasible until two preliminary steps have been taken. The first is the development of some type of federal incorporation law which would include certain features of control over capitalization similar to those of Germany. At present, owing partly to the practice of interstate comity, the more lenient state laws are far more effective than the stricter ones. And with the increasing prominence of agencies interested primarily in selling securities, stricter control of corporate setups is needed before the way can be made easier for even desirable mergers. A second preliminary is the overhauling of the American patent law—probably the loosest in the world. It may be that the time has come when the organized economists should co-operate more closely with the lawyers on such matters in an endeavor to give a more definite lead to public opinion, by way of systematic discussion and report on specific proposals, than they have in the past. These are matters on which every sort of interest is actively working on public opinion, and there would seem to be room for disinterested professional judgment to make its voice heard more effectually.

Ben W. Lewis.—My remarks will be confined to points raised in the main papers. With respect to Professor Watkins' paper I may say that I am in sympathy with that point of view which insists upon maintaining a running inventory and liquid stock of economic theory. Yet I cannot but feel that Professor Watkins has overstated his case, and that enthused by his thesis he has been led to regard several many-sided phenomena from the particular angle lending symmetry to his argument.

Economic theory does need restating at many points; it would be strange if the contrary were the case. But I am not at all sure that the "trustification" movement is peculiarly the cause of this necessity; further, I am not sure that the "old" theory is not sufficiently elastic to cover many of the phenomena which Professor Watkins feels make a restatement necessary.

To consider briefly specific points: We have heard for decades that labor's position under conditions having their origin in the Industrial Revolution is such as to render orthodox economic theory wholly inapplicable; the labor market is imperfect, labor is not an independent bargainer, it is immobile, it has insufficient reserve power to give it an effective upset price, it is unin-

formed, unintelligent, and unskilled in bargaining technique. The development of the corporation has further weakened the position of the laborer. Now the concentration of corporations and of corporate control is urged as the decisive factor rendering obsolete last century's theory. It may be so, but at most only because this latest attack on the old camel constitutes the "marginal" straw. The familiar arguments erected against earlier critics are equally valid (or invalid) here; this onslaught is not peculiar, nor, by itself, does it impress one as irresistible. I admire Professor Watkins' courage, without daring to accept or to challenge his proposition that labor unions are passing from the scene. The account of the stewardship exercised by the new managers during the past ten years is consistent with Professor Watkins' conclusions, but I shall want to be regaled with far more, and far more unequivocal, evidence than has yet been adduced before accepting this as conclusive of the coming of a new permanent order of industry. Convincing data on wage advances in the face of unemployment are lacking, and plausible explanations other than that offered by Professor Watkins suggest themselves. As for acceptance by employers of the doctrine that wages must be advanced to maintain consumer buying power, I should be interested to learn of actual instances of wage increases made on this basis; in fact, I am tempted to employ a statement used by Professor Watkins in another connection: "Not even as a tentative ideal has that half-baked notion been entertained for a moment, we may be quite sure, by the hard-boiled realists who have been syndicating business."

Concentration, we learn, has removed the investor, too, from his independent position. This is concentration of control within the unit rather than concentration of units, but the result is none the less to render purely passive the positive directive agent predicated by economic theory. But economic theory has always had a place for some degree of concentration of control and guidance, as long as competition is present; it has never demanded that every investor be a director. The investor today may select that investment opportunity offering the dividend policy which meets his needs; irrespective of dividend policy corporate earnings redound to his advantage and he is at liberty to dispose of his holdings; there is an abundance of evidence of severe competition for the investor's dollar; and theory still advances the concept of the marginal saver. Has concentration affected the contractual fixed incomes? What motives other than economic prompt corporate saving, today? Finally, there is reason to believe that the same law which within the past very few years has produced those devices of corporate finance which have robbed the investor of some of his traditional accoutrements will before long undergo a change of heart and revest him with many of his former possessions. In fact, recent newspapers carried headlines and stories of a legal victory won by stockholders over an arbitrary management in the proposed steel merger.

Nor am I unduly impressed with the picture of the powerless consumer. Industrial consolidation, through national advertising, hypnotizes the consumer; he demands what he is told by the producer to demand; production thus guides consumption. I am still inclined to the opinion that in the sense

in which it is of significance for a defense of economic theory, the consumer does guide production. He may be unwise, non-critical, easily fooled, but even in this condition he is imposed upon from so many directions that he is not only able, he is forced to choose some goods and reject others. Producers still succeed and fail because the consumer exercises this power. Goods are produced for anticipated continuing demand; producers do their utmost through price, quality, or hypnotics to create or maintain that demand; but the consumer does choose, and to this extent production is under his (admittedly very unwise) guidance. If the consumer selects a cigarette instead of a sweet, and if he cares to achieve nonchalance at the expense of throat irritation or the loss of a mile's walk, several much-vaunted "controls" have gone for naught. And, of course, the great range of raw materials, intermediate goods, and producers' goods are relatively untouched by national advertising.

To be useful and essentially sound it is unnecessary that economic theory be molded in every detail to constantly-fluctuating social manifestations and appearances. I should be one of the last to urge in superlatives the unimpaired efficacy of an economic theory of 150 years' standing. Industrial combination does present a serious (possibly an insuperable) problem for orthodox economists to struggle with. But, and this is the point I would urge, I am unwilling at this time to concede that the trustification we have yet known is so unique, so pervasive, and so permanent as single-handed to force a bewildered economics seeking desperately to attain reality into the position of a handmaiden to business, concerning itself merely with the limits of managerial manipulation.

We may believe, for a whole congeries of reasons of which recent trustification is one, that we can no longer depend under prevailing conditions upon automatic guidance of economic processes. The time may well be ripe, as many have stated today, for extended and intensive experiments in planned, social control. But note that the extent and nature of the trustification movement cannot help being influenced if not determined by the course taken and the limits fixed by any comprehensive control program. One could scarcely be so enamored of economic theory as to advocate "pegging" it for its own sake, but it is in point here to suggest that public policy toward concentration in industry may, incidentally, operate to achieve exactly this end.

In Professor Thorp's paper I am concerned with the practical joke the Supreme Court is alleged to have played on Congress. I appear here for the defense. It is apparent that Congress did not mean to be taken literally in 1890, that some interpretation of the Act, some infusion of content, was imperative. That content has changed throughout the years, the attitude of the law is more liberal than at the outset. Yet if anything is clear from a study of the decisions in the light of the facts and background of the cases actually in litigation before the Court, it is that prediction as to the outcome of consolidation cases to arise in the future is hazardous indeed. The Steel decision settled the Steel case; how much more than that it accomplished I should be loath to say.

The Court, as I understand Professor Thorp's indictment, has construed

the antitrust statutes with liberality (proclaiming "reason" as the guide) in the case of combinations by fusion, and with an inconsistent strictness in the case of price agreements, thus lending positive encouragement to the conditions which it was the very purpose of the Act to forestall. Without attempting to defend or attack either the consolidation or agreement decisions on their respective merits, I submit that the decisions are not arbitrarily inconsistent. A price agreement has as its avowed single purpose the collusive fixation of prices—on its face a complete disavowal of the competitive ideal. While a consolidation may have exactly this purpose, the potentialities both in purpose and possible achievement are greatly wider than in the case of the price agreement. Incidentally, the dissolution of a consolidation is of substantially more moment and concern than the disruption of a price association. I certainly should not care to have the Court saddled with the task of determining the reasonableness of prices charged under price agreements, nor, as I understand the situation, does the Court attempt anything of the sort in its consolidation cases. There is no arbitrary employment of reason in one set of cases coupled with its arbitrary denial in the other; the two situations are substantively different. As to the actual effect, to urge that the Court has in any marked degree caused consolidations to spring up where otherwise only price agreements would have bloomed is to assume that consolidations and price agreements are regarded generally as co-ordinate alternatives. I question that assumption.

As for the emasculation of Section 7 of the Clayton Act, honor to whom honor is due! Section 7 is technical and involved; it would seem to have been aimed at specific evils. The Court has held the operation of the statute within the limits fixed exactly by the phraseology of the statute determined by Congress. The Court has been strict; even so the statute has deterred some abuses, hindering property acquisitions, and preventing evils attaching specifically to the holding company type of collusive arrangement. The other antitrust legislation applies beyond this point. If Congress cares to accept the onus of tightening Section 7, there is nothing to prevent it—except Congress.

I fail to enthuse over the picture of Congress striving earnestly and hopefully in this situation only to be blocked at every turn by a diabolical or incompetent judiciary. Congress writes trust legislation abounding in weasel words and equivocal phrases. Congress demands judicial construction and application; and, for better or worse, it gets them!

It is a commonplace to us that the law is archaic, that Supreme Court Justices are the unyielding exponents of an outmoded social philosophy, and that not until the law comes to adjust its views and processes to current realities will it perform adequately its appointed task. We offer such criticism with reference to most of the Court's decisions in social and economic litigation. In my opinion we have very frequently been correct—although not particularly efficacious. We have carried the same critical attitude over into our consideration of the Court's decisions respecting industrial consolidations and co-operative agreements, and emerged with the same unflattering conclusions; at this point our enthusiasm has played us false.

We have found the Court too strict, too loose, too grasping, too hesitant, too suspicious, too credulous, too doctrinaire, too independent; above all the Court has been inconsistent; it has had no "policy." But, be it noted, whatever the position of the Court, it is, in this field, in the midst of, rather than behind, the social procession.

The Court in all its inadequacy is here speaking for the experts of the country. It has been plunged headlong into the whirlpool by the incapacity of Congress or the desire of that body to escape responsibility. We on the shore, from whom expert assistance might have been expected, have given no assistance. We have been mightily amused or perturbed at the Court's efforts, but the lines we have thrown have not been life lines. Till our economic and social theories and aims come to be crystallized into a policy to which men conversant with the situation are willing to lend substantial support, it must be recognized that the Supreme Court in all its fumbling is performing the difficult task of deciding specific controversies with very little help from the social sciences. Until we know what we want, it little becomes us to blame the Court for not giving it to us.

Abraham Berglund.—In the papers presented certain significant facts were pointed out. One was the persistence of the merger movement; another was the adoption of wage and price policies out of line with current economic doctrine. High wages are paid when the conditions of the labor market would indicate that wage rates should be low. Monopolies often adopt a moderate and even low price policy. Trust magnates, however, do not raise wages because they bubble over with philanthropy, or adopt a moderate price policy because they are animated with a fine civic consciousness. Other factors influence their conduct, some of which I shall endeavor to point out.

Using the term merger in its more usual and inclusive sense it means a large ownership consolidation. The main purpose of its formation is business control or influence. Whether this control is sufficiently extensive to be classed as monopolistic or not, whether it is horizontal or vertical in form, it denotes a movement in the direction of economic imperialism. This imperialism is characterized not so much by a superior adaptation to the conditions or forces which determine market movements as by control of those conditions or forces.

The general attitude of economists and the underlying philosophy of our various antitrust laws have been opposed to such control. Anything like an artificial regulation of the supply of commodities or services has been looked upon as a form of economic oppression. A monopoly price is usually regarded as either a high price or a price fixed with certain destructive ends in view. Competition being limited or entirely excluded, the organization of any business enterprise capable of influencing market conditions is held to be an aggressive invasion of industrial liberty.

The merger movement, however, is more than a development in the direction of purely economic exploitation. In many lines of business, notably in public utilities and certain branches of manufacture, much waste is eliminated and a better correlation between the production of raw or crude materials and that of highly finished products effected.

A very potent force in the merger movement of recent times is an effort to bring about a greater degree of industrial stabilization. Much of our present-day production requires a large outlay of capital in fixed and highly specialized forms. Some years ago when visiting a plant of the Carnegie Steel Company a blast furnace was pointed out to me which according to my guide would require today for its building and proper equipment an investment of $2,000,000 to $2,500,000. Blast furnaces are used for making pig iron, and yet the making of pig iron is only one step in the manufacture of steel, and not a step requiring the greatest outlay of capital. The economical utilization of such capital goods requires fairly steady employment.

The effort to achieve such stabilization has shown itself in the policy of fixing prices for long periods; i.e., eliminating short-time and abrupt fluctuations. In the steel industry to which I have referred, the prices of what is called "finished steel" have shown greater stability since the organization of the United States Steel Corporation than they did prior to its formation. This stabilization has not meant the fixation of high prices. During the period before the outbreak of the World War steel quotations showed a downward tendency when wholesale commodity prices in general were moving upwards. Since the close of that struggle the level of steel prices has been relatively lower than that of commodities in general. In other words, price stabilization has been instituted not for the purpose of establishing high selling values but to prevent postponement of demand in a falling market and an exaggerated demand in a rising one.[1]

The advance in industrial technique is bringing about a situation where a large investment in equipment calls for fairly steady and continuous employment. Idleness or intermittent operations are wasteful alike to labor and capital—a fact which is being impressed upon us at the present time. What is called mass production—a production illustrating the well-known law of diminishing costs or increasing returns—is most feasible where a moderate and fairly stable price policy prevails. Large production necessitates large consumption; and the latter is possible only where prices are within the reach of large numbers and do not fluctuate in a manner that creates uncertainty.

Some control of market operations is thus sought by large combinations; and this aim is not necessarily opposed to public interest. To say this, however, does not mean that our antitrust laws should all be consigned to the scrap-heap and that unfair competitive methods in the interest of achieving control should be tolerated. The point is there has arisen an economic situation by virtue of the large employment of capital in fixed forms where some measure of market control is desirable from the standpoint of both producer

[1] Price stabilization and industrial stabilization are, of course, separate phenomena. The professed object of the former, however, is usually to bring about the latter. How far, if at all, price stabilization contributes to industrial stabilization is a question. In the steel industry the annual fluctuations in the country's output of steel, measured in departures from an established norm for each year based upon a five-year moving average, have been greater on the whole since the Steel Corporation established its price-stabilizing policy than before. Periods of depression in that industry, however, seem to have been shorter, although more severe, than before the organization of the Steel Corporation.

and consumer, of capitalist and laborer. Even in such a highly competitive industry as ocean transportation the policy of shipping rings or conferences in attempting to reduce rate fluctuations is practically sanctioned by the mercantile marine countries of the world including our own. The United States Shipping Board, a government organization, participates in such conferences whenever its lines compete with privately-owned lines in this and other lands.

Competition is still a very important regulating factor in production, but it is not the sole factor. We are learning that organization fixing some limits to competitive forces is not necessarily detrimental to the public interest, particularly if operating under an intelligent public supervision. We have evolved a tremendous and highly complex industrial machine—a machine which must be kept in operation and whose parts need to be properly adjusted to one another.

THE PROGRAM OF THE FEDERAL FARM BOARD[1]

BY JOSEPH S. DAVIS

Chief Economist, Federal Farm Board

The ground work of the program of the Federal Farm Board is laid in the Agricultural Marketing Act. The Board's position, its policies, and its progress during the first year are set forth pretty comprehensively in its first annual report to Congress. This has been called an "honest, candid document." It embodies the Board's critical review of its own early experience and it furnishes the background for what I have to say.

The Federal Farm Board is not set up as a regulatory and supervisory body, like the Interstate Commerce Commission or the Federal Reserve Board. It is not primarily a body for gathering and disseminating facts, which are major functions of the Departments of Agriculture and Commerce. It is not an investigatory body, like the Tariff Commission or the Federal Trade Commission. Assembly, analysis, and interpretation of facts; investigations, more or less prolonged; examination of proposed policies with reference to their probable working: all these are essential to the prosecution of the Board's task. But the Board is expected to act, not merely to study or furnish information; experience—even experimentation in a sense—is part of its job; and to a considerable extent its policies must be hammered out on the anvil of experience.

The program of an operating organization is a working plan of action—definite for the short run, varied with respect to divergent conditions in the field of operations, subject to development with experience and to modification as conditions change. This is the case with the Farm Board's program. It would be too much to expect of the Board, even after a year and a half, to have perfected a program that would be adequate to insure the attainment of its objectives. The program is of necessity a developing plan, and we are primarily concerned with the nature of its development.

The goal which Congress set up for the Farm Board was the placing of agriculture "on a basis of economic equality with other industries." Some may find this broad statement adequate and comprehensive, but its precise content is not readily apparent. I shall not undertake to elaborate its meaning, though I wish that some of you would try your hand at this task. But I think it is not going too far to say that Congress really charged the Farm Board with taking the lead in working

[1] Dr. Davis appeared on the program on short notice in lieu of James C. Stone, Vice-chairman of the Board, who had been scheduled to present an address on this topic.—EDITOR.

out and applying, with assistance from many other agencies, the solutions for serious problems that American farmers have faced and are facing. The task is no less than to develop and carry into effect, in concrete details, a sound agricultural policy for the United States, looking to Congress for sanction of such elements in this policy, as it develops, as may not be afforded by existing legislation.

Viewed as a goal for prompt achievement, this is an impossible task. Tested by its early experience, particularly in a year of drastic business recession, the Board's efforts could not help but disappoint high hopes that many entertained when the Agricultural Marketing Act was passed. The job is a herculean one—far too big at present for the Board, or any of its members, or its staff. But here is the hope: that the Board may grow up to this task, gaining wisdom from within and outside the Board, gradually bringing clarity of thought out of confusion and a coherent program out of a welter of conflicting ideas, mobilizing abundant but hitherto ill-organized forces so as to bring far larger powers to bear upon the agricultural problems that confront the nation. Mistakes, even large and costly ones, may be made. Every successful business corporation has this experience. The important question is whether the Board can profit by its mistakes, make fewer and fewer as it proceeds, wring out of its study and experience increasingly wise plans of action, and apply them with increasing effectiveness.

The Agricultural Marketing Act is in general permissive, not mandatory. Congress plainly expected the Board to act vigorously, but did not prescribe a fixed and definite program. In addition to the broad objective, certain intermediate objectives are mentioned—minimizing speculation, fostering co-operative marketing by farmers, stabilizing the marketing and prices of farm products, prevention and control of surpluses. The Act fixed certain limits within which the Board should work. It charged the Board with making certain investigations and educating in the principles of co-operative marketing. It authorized appropriations for a revolving fund of half a billion dollars to be loaned to qualified co-operatives on easy terms, in any one of several ways, all in the discretion of the Board. It gave the Board authority to do several other things if in the Board's judgment they would help in attaining the major objectives. The responsibility upon the Board is far heavier because of the wide leeway given to it under the Agricultural Marketing Act.

Congress did not even incorporate in the Act, in mandatory fashion, any measuring stick of achievement, such as the ratio-price provision of an early McNary-Haugen bill. Nor did it prescribe any major device for remedying agricultural ills, such as the equalization fee plan or the export debenture scheme. The nearest approach to this lay in

emphasis upon the development of co-operative marketing associations, not as an end in itself but as a major means to the end. So pronounced was this emphasis that faith in large possibilities of co-operative marketing, as a form of business organization and a medium for organizing farmers for more effective production control, was a virtual prerequisite for membership on the Board, and experience in co-operative marketing was an important though not essential qualification for membership. Of necessity, therefore, the Board has regarded this responsibility as fundamental. A large part of its energies and those of its staff—in particular of its Loan Division and Division of Co-operative Marketing—has been devoted to this primary task.

The charge has not been interpreted to require heterogeneous support of any and all associations that can claim to be co-operatives, or guileless faith in co-operative marketing as such. The Board's efforts have been directed toward building up producer-owned, producer-controlled co-operative marketing organizations, soundly organized, wisely led, that have the promise of becoming business organizations of the highest standing. No uniform plan of organization has been insisted upon. Variations in plan and policy appear in the different associations, either because of divergences in conditions or because of desires of co-operative groups. For most of the major commodities and some lesser ones, national commodity co-operatives, made up of regional, state, and local regional associations, are now in operation. In other cases, where conditions do not seem to warrant such organization, or where existing co-operatives do not yet see the way clear to such association, no nationals have been formed.

The Board has expressed its gratification at the progress made in this respect and its confidence in the ultimate outcome. Yet it is under no illusions that the mere establishment of such agencies is the end; it is but a beginning. Business organizations gain strength by experience. Co-operative organizations require experience to grow in strength and wisdom as well as in size. The Board has a weighty responsibility for aiding in the maturing process, by guidance as well as by financial assistance. The process is not one to be completed in a few months, and no one can expect it to be smooth, easy, or at once completely successful.

Important as the Board considers the perfection of machinery for co-operative marketing, it regards as also of outstanding importance radical improvements in the adjustment of agricultural production, in quantity, quality, costs, and balance, to actual and prospective ability of the market to absorb the goods produced. Surplus prevention is fundamental to surplus control. While recognizing possibilities of increasing market outlets, in certain directions, it considers that far more

effective adjustments of supply and cost must be made if agricultural operations are to be more profitable and agricultural stability enhanced. Important elements in its program are directed to this end, and it is in this field that the program stands in special need of further development.

The Department of Agriculture has developed a valuable outlook service for farmers. The Board has bent its efforts toward strengthening and improving this service. It has effectively thrown its weight on behalf of the enlargement of the foreign agricultural information service and more effective co-ordination of the foreign reporting work done by the Departments of Agriculture, State, and Commerce. It is co-operating in the analysis and interpretation of this information, for the available information is already far greater than is being effectively utilized. It is stressing the importance of a longer look ahead—planning not for a few months or a year but for a period of years. Last summer it co-operated in the preparation of a long-range outlook for wheat. Lately the same has been done in the case of cotton, and the Board is just issuing a bulletin of its own which supplements the Department of Agriculture publication. The Board is reinforcing the work of the federal and state extension services in bringing the outlook information home to producers. Already a considerable impetus has been given, and it has much further to go.

Among the grounds for convictions as to the importance of farmer co-operatives is that, through these organizations, scattered individual growers may become keenly aware of the importance of adjusting production to prospective market demand, and be able to act in organized fashion to these ends. Few co-operatives have developed to a point where they are yet serving this purpose effectively, but the Board regards it as one of the most important functions that they can hope to perform. Had Mr. Stone been here, he would have elaborated this point and indicated how in his opinion, at least in certain fields, well-organized co-operatives, working in harmony with processors, can be expected to ensure adjustments of supplies at reasonably stable prices such as will return profits to the efficient grower, but not so high as to tempt the marginal farmer, the in-and-outer, to enter and disturb a rational production program.

The Board does not pretend to have mastered this problem of readjustment. Its ramifications extend almost infinitely. We have not seen all of its implications, and we do not yet know how to deal with all that we do see. Yet already significant progress is being made. In some particulars, notably with respect to land policy, the program is in too early a stage of development to be set forth. The Board needs all the ideas and assistance that members of these associations, scattered

throughout the country, can render in working out the right program and carrying it into effect.

One of the most important points in this connection is that farmers and farm leaders are coming more clearly to realize certain important truths. Farm Board or no Farm Board, co-operatives or no co-operatives, there is no panacea for agricultural ills, no magical device for ensuring attractive prices regardless of the volume and costs of production. Too much attention has been directed to prices; far more important are net returns, and not simply in a single year, but over a period of years. The full burden of responsibility for inadequate farm income cannot be laid at the door of middlemen, or speculators, or foreign producers, or the tariff, or railway charges, or costs of distribution, or all of these combined. Only as farmers can see their way clear to making essential readjustments in their own production and production methods—readjustments appropriate to their particular environment—can substantially higher levels of farm incomes per farmer be secured. The Federal Farm Board does not expect to tell each farmer what he must do to be "saved"; indeed, it has come to realize that even the soundest general advice may be misinterpreted, misapplied, or inappropriate in particular cases. It is, however, vigorously seeking to put farmers in a much better position to make readjustments that are essential to their progress.

Another central feature of the policy of Congress, as expressed in the Agricultural Marketing Act, was the emphasis on stabilization. The concept was not explicitly defined, and the means to be employed were not prescribed in detail. I refer you to the Board's first annual report for a discussion of this big subject. The Board has taken the position that stabilization implies the introduction of numerous stabilizing devices, but that "major stabilization operations," involving resort to stabilization corporations, are to be regarded as exceptional. It recognizes certain dangers in such operations, and considers that the whole procedure must be tested before final judgment on its scope and limitations can be passed. In my subsequent remarks I shall make a few references to stabilization operations, but I wish now to turn to the topic of the Farm Board and the economists.

The Board is alive to the fact that it has to deal with large, complex economic problems and that it must take economic forces intelligently into account. It enjoys invaluable co-operation from the Department of Agriculture and other federal agencies. In addition, however, the Board felt the need of developing an economic staff of its own—in part to make the most effective use of resources and co-operation from other agencies; in part to make appraisals and forecasts upon which current decisions might be based; in part to study its own experience and aid in

the development of its policies; and for various other purposes. On leave of absence from my regular position, I have been trying to develop this work for the Board and to build up a staff capable of carrying it on.

Part of our job with the Board has been to show by actual performance that economists are not hopelessly theoretical and hypercritical, but can grapple discriminatingly with pressing concrete situations; that economists can work through to certain reasoned conclusions, and not stop with summing up sets of facts and arguments, or get lost in masses of detail; that economists can learn to talk and write, and summarize what they have to say, in such a way as to be intelligible to busy men. In endeavoring to prove these things we have had to change some of our leopard's spots, and are learning much in the process. I have recently taken comfort from the remark that if I stay around long enough I may turn human after all.

I will not pretend that this staff has furnished the basis for all of the Board's policies or decisions, many of which were in fact determined upon before the Economics Division was even in embryo, or that we have approved all the measures that have been taken. Obviously this is not the place to go into details of difference. Three things, however, should be said. First, in my university experience I have never found myself in complete harmony with university and departmental policies; it would astonish me if I were in full agreement with all that the Farm Board has said or done or if the Board accepted all of our work at its own valuation. Second, it is not safe to infer that the course of developments would have been eminently satisfactory if the Board's economic staff had, at all points, determined that course; for economists themselves, inside the Board at least, are fallible, do not invariably agree among themselves, and have much to learn from men of other sorts. Third, we are encouraged to exercise initiative, and to deal with the Board freely and frankly, in ways that are stimulating to serious efforts. The Board is apparently convinced that a selected group of economists, who will concentrate, at once scientifically and realistically, upon the problems with which it has to deal, has much to contribute to its progress. It has gone far in approving the upbuilding of an economic staff, and is increasingly relying upon us for economic counsel as well as assistance in other forms.

There is room for further development of these functions. It is, however, not the policy of the Board to magnify its economic staff to the extent of displacing other agencies. On the contrary, it is the aim, in every way possible, to increase the Board's reliance upon other agencies, federal and state, public and private, and individuals as well. We have no concern about working ourselves out of a job.

The Board welcomes the serious consideration of its policies, program, and particular measures by the trained economists of the country. It expects criticism, is not afraid of it, and intends to profit by it. The Board values discriminating analyses by outsiders of the basis of its policies, the direction in which they lead, and of alternatives that have been or can be suggested. There has been some of this already, but not nearly enough. The Board hopes that economists will not content themselves with silence, or with knocks or boosts, in public or in private; but that they will, in good spirit, bear a part of the burden of working on the important problems in hand. Members of these associations can, if they will, exert substantial influence upon the Board's course of action.

May I take the liberty, however, of suggesting a few things to you in this connection?

You are sometimes amazed, no doubt, at the way in which members of the Board make statements on large matters of fact or policy, apparently without the degree of consideration which you think the matter deserves. May I say that I am likewise amazed at the freedom with which economists of repute, with less excuse, deliver themselves of opinions or judgments for which the foundation is exceedingly flimsy? To save time and avoid controversy, I forbear to cite illustrations. But I wish that more of you might run the gantlet of having to present your criticisms, analyses, and proposals to those who need tests of their accuracy and must take the consequences of decisions based upon them. It is, I assure you, a sobering and wit-sharpening experience.

Further in the interest of a tolerant spirit, let us frankly admit that hindsight is usually wiser than foresight. The Board must make its decisions as best it can on the basis of analyses and forecasts. Errors made in analyses and forecasts may render decisions inappropriate and lead to unwelcome consequences. We are seeking to perfect the bases for far-reaching decisions, and to learn from past errors. We welcome your aid in this task, and want to profit by your own progress.

May I ask you further to realize that the Board of necessity must grapple with actual situations? It must decide not merely between alternative courses of action; it must decide, often quickly, without the fullest opportunity for study and reflection, between action and inaction It must face the consequences of such decisions. In viewing its policies, therefore, you do well to put yourself in its place. It is not enough to argue that an action was followed by unsatisfactory results. The results may have occurred not because of but in spite of such action; and economists, of all people, should be the last to fall into the common error of reasoning *post hoc, ergo propter hoc*. Even if results that followed from a course of action were unsatisfactory, it is hardly enough to stop

with proving this; it is desirable to show that the results of inaction, or of a different course of action, would have been better.

Let me illustrate with a few examples.

In October, 1929, certain loan policies were adopted with respect to wheat and cotton that led into major stabilization operations the outcome of which cannot be regarded as satisfactory. Suppose, however, no action had been taken. In our judgment there is no doubt that radical declines in wheat and cotton prices would have taken place then, instead of later; that these declines would have been credited with heavy responsibility for the stock market crash, severe breaks in commodity prices in general, and extreme business depression. The actions taken did not prevent these disasters; but had the Board refused to exercise its powers in efforts to meet the situation, it would have suffered even weightier condemnation for merely standing by.

Granting that with truer analysis of the situation and wiser handling of it, results might have been better, let us recall that the great piling up of world wheat stocks, which so seriously complicated the wheat situation last year, occurred before the Farm Board was ever established, and that the causes of the world-wide business depression are far too numerous to be laid to its charge.

Moreover, let us see what might have happened if the Farm Board had had the power to apply the export debenture plan in the fall of 1929. That was a year, like the present, in which the outstanding characteristic was a large excess of exportable surpluses of wheat over what importers were willing to take at any price. The theory of the debenture plan is that domestic prices would be raised by bidding up for export. To enhance the domestic price would have required a very substantial increase in our exports. But any such addition to export pressure, as we are seeing in striking fashion this year in wheat, would have caused disastrous declines in world wheat prices, and caused the wheat pressed into export to fall to exceptional discounts under other wheats. In the fall of 1929 it did not take huge supplies of Argentine wheat to break the international market, pile up unsold in European ports, and sell at extreme discounts under other wheats. This year Russian wheat has done the same. Had our exports been stimulated by an export debenture scheme in the fall of 1929, Canadians would have been forced to sell freely, and the resulting competition could easily have depressed prices in Liverpool to well below a dollar a bushel. With a special discount on our wheats, Chicago prices might have dropped to ninety cents or less in spite of the differential advantage of the debenture and even if no directly countervailing action had been taken.

I cannot argue the matter here at length, but I wish to express my conviction that the past year would have been much more disastrous to

American farmers, and the present one no less difficult, if the debenture plan had been put in operation; and that not only the plan, but the Agricultural Marketing Act and the Farm Board itself, would have been discredited in the process. The Treasury burden of the plan, moreover, would have been greater than all the losses that may be chargeable to the Farm Board's operations in comparable periods.

The Board's policy of urging reduction in acreage of wheat and cotton has not received the respectful consideration from economists that it deserves. Suppose the Board, like Australia, had urged expansion of acreage, would this have been wiser? Suppose it had failed to take a long look ahead, and call attention to tendencies which have borne fruit all too soon, would farmers have been better off?

The wheat stabilization measures recently adopted are the most conspicuous in the Board's immediate program. They represent an extreme type of action, taken in what was deemed a national emergency. By operations of the Grain Stabilization Corporation in wheat, our wheat prices are being held fairly stable, above export parity, while world market prices have sharply declined. The policy was not adopted until our best export period had passed, until a disastrous drought had increased domestic requirements for wheat, until wheat prices had fallen to levels making extensive feed use certain and not encouraging to expansion of wheat acreage, until the world wheat picture had become clearly defined. Admitting risks in the operation and uncertainties as to the outcome, let us see what refusal to act would have involved. Even with the world market largely relieved of pressure from our exports, Liverpool prices have declined to nearly twenty cents under Chicago, whereas if we were liberally exporting, Chicago would be ten or fifteen cents below Liverpool. Prices of wheat in this country today would be at least thirty and probably forty cents lower had the Stabilization Corporation not gone into action. I submit that the consequences would have been far-reaching and serious.

The day of realistic economics is here. This does not mean eschewing theory and becoming slaves to so-called facts. It does not mean abandoning hard, close reasoning, fertile hypotheses, clear-cut concepts. It does not mean becoming devotees of statistical method, to the exclusion of theoretical analysis. It means the concentration of all available resources of fact and technique upon the solution of problems of economic policy, public and private, and making the results available for actual application. Granting that this is not the whole field of the economist's efforts, the opportunities for such work on the part of economists are almost unlimited. So long as we economists are not measuring up to our possibilities in these regards, we must share the responsibility for defects of legislation and administration. Let us

not spend so much time in pointing out the shortcomings of others that we make no contribution ourselves.

In conclusion, then, the Board does not solicit your casual endorsement of what it is doing. It welcomes your best appraisal of the ideas that it expresses, the measures that it takes, the aims that it avows. It also counts upon your efforts on the outside to supplement what the Board and its own staff are striving to do. It desires your understanding and, if possible, sympathetic interest in its efforts, but most particularly the best aid that you can give in guiding its course most effectively toward the ultimate goal. I venture to suggest that you do not sit in the seat of the scornful, adopt a tone of antagonism or condescension, or assume a cocksure attitude that carries its own condemnation. Rather let me urge that you recognize in the Board an intelligent, earnest, live body, often misguided but nevertheless capable of learning, admittedly not yet up to its job, and with a program still in the making; and that in a constructive spirit you will make your own important contributions toward the wise development of its policy and program.

SOCIAL IMPLICATIONS OF THE RESTRICTION OF AGRICULTURAL OUTPUT

By John D. Black
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May I ask you to note that the title of this paper does not call for a discussion of the question whether or not agricultural output can be restricted. The title is not mine, but was suggested by the President of the American Farm Economic Association. No doubt a majority of economists believe that agricultural output cannot be restricted and that therefore to discuss the implications of such restriction is a waste of energy. But this is not an issue so far as the purposes of this paper are concerned. This paper must assume that agricultural output can be restricted. I am therefore discussing the subject as if there were an organization of agriculturists in this country large enough and powerful enough to carry out the various programs of restriction which I am about to discuss. One might call this organization "The United States Agricultural Combination." If you wished, you might departmentalize this organization by commodities, so as to have separate combinations for wheat, cotton, and all the other farm products. But in that case, you would have to provide for co-operation between these commodity combinations. Otherwise the producer members of one commodity combination might shift to other products when restricted in the production of their own commodity.

Such an organization as this might adopt any one of the following five programs:

Program I. *Merely seek to level out production from year to year,* to keep farmers at times from overplanting and overbreeding and underplanting and underbreeding. Applied to hog production, this program if effective would merely eliminate the hog cycle. Applied to apples, it would prevent alternating periods of much and little planting of trees. Applied to annual crops, it would adjust each year's sowings to the carry-over from the year previous. It would not be a dead level of production that would be sought, because production of any commodity is likely to be tending upward or downward at any time; rather the objective would be as close conformity as possible to a projected trend line.

Program II. *Seek to exact a full monopoly price, in so far as possible with such competition from other countries as is permitted by tariff duties existing at the time.* The monopoly price sought would be the price which would maximize the net incomes of the producers of the commodity in this country—which theoretically is the price which would

give the largest multiplication product of net income per bushel times number of bushels. To realize such prices for any farm product which can be imported, a tariff duty will be needed high enough to permit prices in this country to rise to the monopoly point above defined without any importations occurring. Of course an embargo such as Mr. Legge has now suggested for wheat would accomplish the same purpose. If the tariff duty is less than this, only part of a full monopoly price will be possible. It should be clear that such a program not only requires that there will be no exports of the commodity; but that production will be further reduced to the point that will yield maximum net income. In practice, with tariff duties commonly lower than needed for full monopoly price, the highest possible maximum will commonly be reached when production is just at the point of making the tariff duty fully effective and importation is about to begin.

Obviously if such a program were carried out, and the tariff duties were high enough, there would be neither imports nor exports of the commodities monopolized. If applied to all commodities, we would cease exporting cotton, wheat, corn, pork, and lard.

Another possibility, of course, would be producing more than would be consumed at monopoly prices, but releasing only restricted amounts for domestic consumption, dumping the remainder on foreign markets at lower prices—a program not unknown to some manufacturers in this country—and already proposed, with some variations, for agriculture under the name of the McNary-Haugen bill. The amount to dump is of course everything above what will yield a full monopoly price on domestic consumption, or make the tariff duty fully effective in case it is not high enough to establish a full monopoly price. Obviously such a program as this is more of a marketing than a production program.

Program III. ***Seek to establish a full monopoly price by joining forces with similar combinations in all other countries producing the same commodity.*** Such a program if effective would produce world monopoly prices—such as Brazil has probably sought in times past for coffee, and towards which the sugar interests have recently been striving by means of an international agreement to curtail production. This is also true of the copper and tin interests.

Program IV. ***Seek for full control of production so as to be able to bargain collectively with a combination of buyers of farm products***—a full monopoly of sellers bargaining with a monopoly of buyers which may be either complete or only partial. Such an arrangement would be realized in a fluid milk market if the producers' organization effectively controlled all the supply and the milk distributers operated more or less as a unit in buying.

Program V. ***Seek for control of only a major fraction of the supply***

either in the domestic market only, or in the world market also by international agreements, bargaining with organized buyers where necessary. The general term given to such control is *duopoly* as distinguished from monopoly. Strictly speaking, under duopoly two completely independent producers, and two only, control all the supply. But having three such independent producers or four or any number short of enough to give perfect competition, is, so far as the principles involved are concerned, merely a variant of the case with two independent producers. Hence the term duopoly can be used to designate all forms of fractional control of supply. In practice, such fractional control commonly takes the form of one large unit and a good many small independents. In agriculture, the independents are likely to be numerous and very small.

At this point you must be reminded that the subject under discussion is control of agricultural production, not of agricultural marketing. Programs similar to all five of the foregoing can be developed for the control of the flow of goods to market after they are produced. They would be directed at distributing the sale of the product over the year, and over into the next year in the case of products commonly carried over, in such a way as to maximize the net sales receipts from them after they are produced. They would probably also include distributing the product between different consuming centers, and between different utilizations, with the same objectives in view. Control of production and control of marketing must of course be closely related to each other. In the case of seasonal products like grain and cotton, any decision to carry over an abnormal amount into the next year must be followed by especial restriction of production. In the case of livestock and livestock products, rate and time of production and rate and time of marketing can be synchronized through adjustment of breeding and feeding operations. In the discussion following, any adjustment of marketing to production that is needed will be assumed.

Now as to the social implications of the above five programs. The discussion of these need not be prolonged.

As far as Program I, seeking to remove irregularities in production, is concerned, there need be no argument. To be sure, a certain amount of monopoly practice may be involved in it; but the monopoly effects are merely temporary. Producers refrain by agreement from overproduction so that there will not be ensuing periods of underproduction. Consumers gain along with producers from such a program. But one caution must be interposed. It is not easy to know what volume of production will prove to be regular; that is, what will equilibrate supply and demand year in and year out, allowing for such trends as develop. Under these circumstances, bias is likely to operate, and it will usually be in the direction of higher prices for current production. The tendency

will thus be to attempt to regularize production on too high a price basis. The evil of this plan will not be so much higher prices for the consumers, as a failure of the program of stabilization.

Program II, definite striving for full monopoly control, in so far as possible with such tariff duties as are in effect, is of course generally regarded as antisocial conduct. Governments grant such monopoly rights to inventors and authors, but only for a few years to encourage invention and get production started. We can be sure that our public is not going to grant full monopoly control over staple farm products. But it may be ready to grant such control up to the limit set by the tariff duties it imposes. The opposition in the East to the McNary-Haugen bill, which was essentially a proposal for such a monopoly, would suggest not. But a different personnel in control of the Republican Party might have given us a different answer. Perhaps our public is ready to permit monopoly action among agricultural producers up to the point of making tariff duties effective. To do so will raise the cost of living in cities, it is true; but perhaps we as a nation are ready thus to subsidize agriculture. We must admit that we have long subsidized manufacturing in this way. There is not the slightest doubt that a considerable amount of unity of action among manufacturers in this country has been a factor in making the tariff duties on their products effective. Such unity of action is rather easily attained if only a few producers are involved; especially easily attained if one large producer controls most of the output.

Program III, like the foregoing except that it substitutes international agreements for tariff walls, would, if successful, give us full monopoly prices for all products included in the combination. Each product would be turned out in that volume which multiplied by price would yield the largest net income for its producers. No general argument is needed as to the non-social character of such arrangements. They have been discussed at international conferences of the wheat pools and at other international gatherings. The recent sugar attempt has already been cited. We can expect an increasing number of ventures along these lines. However, the activities of such organizations for a while at least will no doubt be directed more at regularizing production than at restricting it and as such will be socially desirable.

Under this head, only one point is worth making. If actual world monopolies were created for several agricultural products, the producers of them would in many cases use their remaining land and labor to increase the output of other products and lower the prices of these. The monopoly products would tend to carry the overhead of the farm business, and other farm products would be produced if they merely exceeded the prime costs. Producers and consumers would therefore

both have lower prices of some products to offset at least partly the higher prices of the others. As more products were monopolized, however, these offsets would be of less importance. Another effect would also begin to appear. The monopolizers would find themselves spending more of their income on products of other monopolies. Real incomes in goods would eventually begin to decline for the monopolists themselves. A society in which all goods are produced on a monopoly basis is a *reductio ad absurdum* sort of a society.

Program IV, collective bargaining with organized buyers, if it can be made to work, is not socially objectionable, if the organized buyers are the consumers. In fact, it has much to recommend it on this basis. The prices which would be obtained by this means would in many cases represent closer approaches to equilibrium prices than those now arising in our supposedly freely competitive markets. The relative strength of the two organizations, their power to withhold production and keep members in line, would figure in the prices agreed upon; but prices would never be greatly distorted for any long period of time.

If the organized buyers were middlemen, however, the situation would be greatly changed, because the consumers would be without adequate defense against the two combinations. This is the form which such organizations of buyers and sellers are likely to take at first.

Program V, duopoly or control of a fraction of the supply, with some effect on prices in consequence, no doubt comes nearest to what any organization of agricultural producers is likely to achieve. The Congress of the United States has already considered this program, and has passed an Act embodying its conclusions. This Act—the Capper-Volstead Co-operative Marketing Act—according to interpretations most generally accepted, gives agricultural co-operatives a chance to regulate the flow of goods to market, and even to regulate production, so long as they do not *unduly enhance the price.* This is to be interpreted to mean that some small enhancement of the price is permissible if compensating advantages are associated with it in the form of increased stability in production, greater certainty of adequate supply, more dependable quality, and the like. It is assumed that the compensation of slightly better prices may be needed to get producer members of co-operatives to stabilize their production as is desired, or to furnish the necessary incentive to hold members to a needed organization. The foregoing does not mean, however, that fractional control could not augment prices more than is good social policy. For a discussion of the possibilities of control of price through fractional control, the reader is referred to the article on duopoly by Dr. E. H. Chamberlin in the *Quarterly Journal of Economics* of November, 1929. Space does not permit even reviewing the points in this article.

Since this subject has been announced as part of the session devoted to the Federal Farm Board, I suppose that I am expected to relate my discussion to the work of the Board. What powers along the lines of the foregoing five policies are conferred upon the Board in the Agricultural Marketing Act? Is or is not the Board granted monopoly power? Are the co-operative associations, stabilization corporations, and clearing house associations which the Board is instructed to foster, granted monopoly power? Unfortunately the language of the Act proves to be indecisive when put to such a test. In Section 1, the Board is instructed to encourage "the organization of producers into effective associations or corporations under their own control for greater unity of effort in marketing." "Unity of effort" among producers sounds like a definition of monopoly practice. But the adjective "greater" takes away most of the monopoly implication, and makes us realize that only such unity of effort is intended as is now accorded to co-operatives under the Capper-Volstead Co-operative Marketing Act. In the same section of the Act, the Board is instructed to *aid in preventing surpluses* such as cause "undue and excessive fluctuations or depressions in prices"; and a surplus is then defined as a supply in "excess of the requirements for orderly distribution or in excess of domestic requirements." Obviously, real power to prevent production that results in undue or excessive depressions in price or in exportable surpluses would be monopoly power indeed. But the Board is authorized only to *aid* in preventing such production. Just what specific monopoly devices the courts would define as proper aid in that direction is difficult to forecast. One surmises that an effort was made in framing the Agricultural Marketing Act to adhere to the sense of the Capper-Volstead Act; that is, to permit monopoly practice so long as it does not "unduly enhance the price." At another point (Section 3), the Act uses the expression "advising the producers . . . in the development of suitable programs of planting or breeding in order to secure maximum benefits under this Act consistent with the policy declared in Section 1." No doubt such advising is most of what is intended. The phrase "maximum benefits" would suggest monopoly price definitely were it not qualified by the phrase "consistent with the policy declared in Section 1."

It is also true that the Act affirms the intention of Congress through the instrumentality of the Board to place agriculture on a basis of equality with industry; but this can hardly be taken to empower the Board to employ monopoly tactics to attain the end.

Finally, one must not forget that the Act is called a "Marketing Act," and although "orderly production" is mentioned later in parallel with "orderly distribution," it is mentioned only as means to "effective merchandizing" and to protecting, controlling, and stabilizing

the currents of commerce in the marketing of farm products and their derivatives. The "surplus control operations" mentioned here and there in the Act no doubt include both production and marketing operations, but the production principally as accessory to the marketing.

Now let us turn to the policies of the Board set up under the Act. Its recent annual report is the most authoritative source of evidence as to these policies. All of the following statements, more than a little inconsistent as some of them are, are found in rather close juxtaposition.

The central marketing associations are set up, "not to set aside the law of supply and demand and artificially raise prices to consumers, but to engage in merchandizing programs that will reflect back to their farmer members the actual value of their products to processors and ultimate consumers" (p. 6). It is hoped that the co-operatives "will gain control of a sufficient volume of the various commodities to influence favorably the marketing methods and market flow and to have a substantial degree of bargaining power in marketing these products" (p. 6). (These two statements are consistent only if we assume that the substantial bargaining gains are all to be taken out of middlemen's profits, and none are to be passed on to consumers.)

Other pertinent language is the following: "to exercise effective control over the marketing of a considerable portion of each commodity" (p. 3). "The exercise of some influence on the quantity . . . of commodities produced for the market" (p. 4); "regional and national organizations for a unified program in the marketing of . . . products" (p. 6). "When once the producers and their co-operatives within a commodity group have unified their marketing operations into a single organization" (p. 7).

These expressions all suggest monopolistic intent. Exerting monopoly influence over the supply is different from and probably less important than exercising effective control over the marketing of a considerable portion of it, but both represent monopolistic intent. Mere unification of operations in itself may not be monopolistic; but if it is pointed at influencing prices, it surely is.

In the part of the report dealing with "surplus control measures," the first statement is as follows: "Not stabilization in the sense of rigid fixation or leveling of prices, but stabilizing in the sense of limiting fluctuations and cushioning the shocks from severe fluctuations, is regarded as the objective" (p. 24). But later statements refer to the need of "prevention of surpluses, through control of excessive production" (p. 25-6), and go so far as definitely to suggest in the case of wheat, the "curtailment of production, with a view to reducing, and if possible, eventually eliminating our export surplus so that the tariff might become effective on American prices" (p. 35). All of us are

familiar with the fact that members of the Board have been urging the wheat farmers during the past year to reduce their acreage to the point of stopping exportation. The report definitely suggests that the co-operatives will not have done their duty until they have adjusted the production of their members "to effective market demand." There is surely definite intent indicated in these statements to restrict production and raise prices by unified action.

The above cited expression "adjust production to effective market demand," is repeated with variations throughout the report: "production must be brought in line with consumer demand" (p. 3); "adjusting production to potential market requirements" (p. 4); "production in excess of market requirements" (p. 26). The Marketing Act itself speaks of excess above "domestic requirements" (Section 1). In similar vein is the statement above cited about getting back to the farmers "the actual value of their products to processors and ultimate consumers" (p. 6). It is of course a commonplace to economists that there are no definite market requirements for farm products. For all of them, the amount consumed depends upon the price of the commodity itself, the uses to which it may be put at various prices, the supply and price of substitutes, and a score of other factors. Recently we have learned anew that even the consumption of wheat varies with the price and several other factors. Similarly the "value" of it to ultimate consumers will depend upon how much is available and the uses to which consumers can afford to put it, whether as white bread, brown bread, or feed for livestock. The prefixing of the adjective "potential" in one place, and substituting the phrase "effective market demand" in another, no doubt represent attempts of the economists of the Board to protect themselves from the above false implications of the phrase "market requirements"; but they scarcely suffice. Clearly the Board members are thinking mostly in terms of rather definite amounts.

The relation of this to the monopoly question is that if a central co-operative association, or a stabilization corporation, working with the Board, does adjust the production of a farm product to a definite amount determined in advance to be the domestic market requirement, they have by this act established a monopoly price, and the amount which they decide to have produced determines what the monopoly price will be, so long as it is not so small as to raise domestic prices above the tariff wall. The Board, however, surely does not have in mind that the amount designated as the market requirement will be such as to produce an exorbitant monopoly price, but instead only some price which to them would seem reasonable.

The foregoing analysis has made no distinction between acts of the Board, of the central co-operative associations, and of the stabilization

corporations. For the purposes of the present analysis, they are one and the same. I may also add that so far as the public is concerned, they are very nearly one and the same. The public cannot hold the Board responsible for each detail of conduct of the central co-operatives and stabilization corporations; but it can and will hold the Board responsible for the major policies of these organizations and for the total effects of their activities. No disclaimers which the Board may make to the contrary will relieve it of such responsibility. The public has not given the Board a half-billion dollar revolving fund to use as an instrument of control over the co-operatives without holding the Board largely responsible for what the co-operatives do.

Let us now return to the five programs described earlier and relate each of them to the Agricultural Marketing Act and the Federal Farm Board.

As far as Program I, seeking to remove irregularities in production, is concerned, the Act very definitely means this by its references to orderly production and to preventing surpluses and excessive fluctuations and depressions in price. The Board refers to orderly production in its report, but nowhere sets up a definition of it. Adjusting production to market requirements will not in itself regularize production. It will do so only if the amounts designated as market requirements are such as result in prices that will keep production in line with prevailing trends. It is still necessary to determine what production is in line with prevailing trends. The general tendency of such estimates to be biassed downward has already been mentioned. The Federal Farm Board membership is chosen from co-operatives, whose members in turn are producers. The danger of bias will therefore be especially strong. If the Board and stabilization corporations any year are holding some of the past year's crop as at present, they will have further reason to be biassed toward curtailing production too much. We must also not forget that the Board is not yet in position to be entirely indifferent to the fortunes of whichever party may be in power.

What are the trends in cotton and wheat production in the United States at present? Most of us would say upward in volume and downward in price. Is the Board prepared to accept such a situation, or is it likely to attempt to stabilize production at a smaller volume and higher price?

As for Program II, seeking for full monopoly power, the embargo on wheat imports which Mr. Legge has recently suggested would give the Board such power so far as this year's crop is concerned. But all that producers in this country would have to do to break such a monopoly next year and afterwards, if the embargo were continued, would be to keep on producing as much wheat as they have been. The accepted

program of the Board is getting producers to reduce output until the exportable surplus is eliminated with the tariff fully effective on price. If this can be done, the result will be a monopoly price up to the limit of the tariff duty above the world price. It is true that the monopoly will be unstable, since the higher prices will stimulate more production and break the combine; but if it works, the result will be a true monopoly.

You may call attention to the fact that unity of action is essential to a monopoly. There will be unity of action present in this case. The Federal Farm Board and the co-operatives will have acted as leaders in getting producers to act in a unified manner to curtail production and obtain a monopoly price.

The present tariff duty on butter has been effective on prices much of the time since it was established because production has not until lately responded to price as much as expected. But it is ordinarily assumed that there has not been unity of action among producers to keep output down, and hence that the butter price thus far has not been a monopoly price. If, however, one could say that the Department of Agriculture in this case has acted as leader and induced curtailed production by means of its outlook reports, then one would have to admit monopoly effect even in this case. I mention this instance as evidence that we may already have gone considerable distance in the direction of permitting monopoly control of agricultural production behind a tariff wall. Furthermore, the Board's program for wheat, monopolistic though it may be, is not out of line with accepted practice in industry, and we as a nation cannot honestly object to it on this score.

As for Program III, involving international agreements, the Federal Farm Board has not publicly indicated any interest in such a program. One might surmise that it has held conversations with representatives of the Canadian Wheat Pool in which possibilities along this line were discussed; but I doubt that any joint action has been undertaken.

The Federal Farm Board likewise has not suggested a collective bargaining program; but no doubt it stands ready to adopt such an arrangement with any group of organized buyers that may appear. The tobacco situation may furnish the Board its first real opportunity along this line.

The program of fractional control, No. IV, is most nearly what the Board has in mind for most commodities. It has actually assisted in a program of signing up 92 per cent of California's grape production. The effectiveness of such a procedure depends upon how well the combine is able to control the production of its members, and the ability and behavior of the producers of the other 8 per cent. If it is able to curb all the desires for expansion of its members as prices improve, and imports can be held in check by tariff duties, and the non-members do not

expand their production, it can raise prices to full monopoly level. The chances are, however, that nothing as drastic as this is intended, that stabilization of production will be the main objective, and only a small amount of raising of prices above a competitive level. Past experience has been that members will not keep their production in line if prices rise very much. The Board's expressed intent is that only "substantial" bargaining gains will be sought.

I think we may conclude from the foregoing that the Agricultural Marketing Act authorizes the Federal Farm Board to assist co-operatives and agricultural producers generally in programs of restriction of agricultural output, surely to go as far along this line as is intended in the Capper-Volstead Co-operative Marketing Act, and possibly to go as far as to restrict output to what will be consumed at home at prices established relative to world prices by tariff barriers. As to this latter, we cannot be sure. The language of the Act is indecisive.

Some of the pronouncements of the Board suggest going as far with restriction of output as the latter statement indicates. This is particularly true of the proposal to eliminate exportable surpluses and make tariff duties effective. It is even involved in its suggestion to limit production to definite amounts said to represent market requirements.

What about the social implications of this? Probably no more restriction is intended than is already common practice among manufacturers. The only difference is that the manufacturers, being fewer in number, and assisted more by tariffs, have been able to make considerable headway by themselves, whereas farmers need assistance if they are to make any headway. Perhaps it is bad for society that either should employ such devices. Certainly many will so argue. Another point of view is that stabilization of output inevitably means some restriction too; but that the stabilization is worth more to society than what is lost by the restrictions.

So far as agriculture is concerned, restriction of output will be achieved only slowly. If notable curtailments of output are now and then attained, they will not last. The lasting restrictions will be a slow growth, associated with rising standards of living among the producers. Society has little to fear and more to gain from the efforts of the Board and the co-operatives along this line. We must never forget that having a multitude of producers in place of a few is in itself almost a guarantee that unity of effort is not likely to be carried to dangerous degrees.

ROUND TABLE CONFERENCES

LAND ECONOMICS

RICHARD T. ELY, *Chairman*

RICHARD T. ELY.—Land economics is distinct from real estate. It deals with the human relations arising out of the use of land and the principles developed from the study of such relationships are applied in real estate. Land economics is one of the most important branches of economics. For many individuals the purchase of land is the most important transaction to which they are a party. Then, too, the seriousness of the consequences of mistakes in land utilization enhances the significance of the study of land problems. Mistakes in land use or policy are of long duration and one of the causes of present hard times is faulty land utilization.

But the significance of these facts is not fully appreciated. The report on *Recent Economic Changes* omitted all reference to recent changes in land utilization and policy and included only a very slight treatment of public utilities. How valuable can a report of that nature be which neglects one-half the wealth of the country?

The relation of population to land uses and land values is of primary importance. Contrary to common belief land values do not always rise with population; farm land values are declining at the present time; more efficient utilization has offset the effect of increased population. The possibilities of forecasting land values with reference to population are full of promise.

P. K. WHELPTON.—In making predictions as to future trends in population growth and land utilization it seems wise not to go beyond the year 2000. Possibly it would be more prudent to limit the discussion to a shorter interval, for the next 70 years offer plenty of time for these predictions to go astray. However, the year 2000 affords a convenient goal in spite of these limitations.

The last one or two decades have witnessed a rapid change in current ideas regarding the future population growth in this country. The increasing numerical gains and the rising rates of growth revealed in the censuses prior to 1910 gave rise to the fear of serious difficulties from pressure of population on food supply in the United States. Predictions of a population of between 300,000,000 and 500,000,000 by the end of the twentieth century have been common.

The Census of 1920, however, revealed a new tendency in the form of a smaller increase than that of the preceding decade and a rate of growth of less than 15 per cent. Still greater surprise was caused by the estimates of Drs. Pearl and Reed on the basis of their logistic curve which indicated a population of 185,000,000 in 2000, with an upper limit of 197,000,000 to be reached after 2100 A.D. But these pessimistic facts and estimates have received but scant consideration.

The Scripps Foundation estimates have been worked out by a rather detailed method. In brief, the plan was to divide the native white, foreign white, and Negro rural and urban groups into five-year age periods; calculate

the past trend of birth rates, death rates, and rural to urban migration as far as data allowed for each age period; and estimate the future trend. Immigration was allowed for on the basis of the regulations existing in 1927, under which there had been an excess of arrivals over departures of about 200,000 per year. Starting with the 1920 population, applying these birth and death rates for each age period, allowing for rural to urban migration, and adding net immigration, the estimated population by race, nativity, and age was calculated for 1925, 1930, and each fifth year thereafter. The result was a prediction of 122,900,000 for 1930; 185,000,000 for 2000; and almost no increase thereafter.

These estimates are not based on, nor do they represent, any law of population growth. They are simply the result of an empirical process. The 1930 Census has shown them to be slightly in error already, since the actual population was about .1 per cent below the estimate. This seems to have been attributable mainly to a greater fall in the birth rate than was expected. The Scripps Foundation estimates need to be revised downward, therefore, and will be so corrected as soon as data by age groups are available from the 1930 Census.

Immigration and birth rates are the uncertain factors which complicate estimates of future population. Death rates are fairly stable and the possibility of their further decrease is relatively limited. Birth rates fluctuate irregularly; so future predictions are likely to contain a high percentage of error. While sentiment for restriction of immigration continues, possible social and economic changes may bring about a radical change of policy within the century. Hence, in the light of present knowledge, about all that can be said is that the size of our population in 2000 is not likely to exceed 175,000,000 and may be nearer 160,000,000, the figure mentioned by Dr. O. E. Baker.

The growth of population by size of community offers an interesting field for speculation to the populationist and to the land economist. Opinion is probably unanimous that the greater part of the future increase will accrue to cities; the uncertainties are the amount of the rural gain and the distribution of the urban gains. The 1930 Census shows that the trend toward concentration in large cities has continued, even allowing for annexations since 1920 and for shifts of cities from one size group to another. The rural population has increased 5 per cent in the last decade but much of this gain is scarcely rural, and probably will not be so classed in the future, since it is made up of city workers who have built acre-lot colonies outside city limits, largely in the eastern states. From the standpoint of farm management it is possible that farm population in 2000 A.D. will be less than that in 1930 and that any rural increase will come from villages and acre-lot colonies. The farm to city migration may be further hastened by the necessity of increased size of farms in order to take advantage of large modern farm equipment. A contrary prediction is that farming will become more intensive as population approaches the 175,000,000 mark. Assuming a population of 175,000,000 in 2000, the prediction may be made that the increase over 1930 may be distributed as follows: 5,000,000 to rural areas and 47,000,000 to urban areas.

Perhaps the most significant difference to be expected in the future popu-

lation is a change in the direction of a more even age distribution. Population in the older age groups will increase more rapidly than in the younger age groups and the median age will become considerably higher than the 1920 figure. Among the causes of these changes are the present immigration policy, the decline in the birth rate, and the decline in the death rate.

What will be the effect of these population changes on land policies? A slowing up of population growth is likely to have a corresponding effect on the purchasing power of land. Possibly toward the close of the century the increase in numbers will be so small that its tendency to raise land values will be more than offset by progress in the efficiency of land utilization, resulting in a decline in the purchasing power of land. It will become increasingly erroneous to assume that the depreciation on a building will be offset by appreciation of its site value. Of undiminished importance will be the proper classification of land in order to provide that the various kinds of land are utilized to the proper degree of intensity and that the stepping up of land to higher planes of utilization will take place in an orderly and purposeful fashion.

This decrease in the value of land will probably be accompanied by greater limitations on the rights of individual ownership, for the increase in population, though small, will be sufficient to warrant increased social control of land utilization.

No great additions to the acreage of agricultural land nor to the intensity of its culture may be needed to maintain the moderately larger population, although an increase in acreage may be necessary in certain localities.

Since most of the future growth of population will accrue to urban communities, urban land planning may undergo greater development than rural land planning. However, the slowing up of population growth generally should bring about greater stability in the use of urban land by reducing the shifts from one use to another, which will prolong the useful life of business buildings and alter the ratio of improvement to site value. The development of new high-grade residential areas should be less rapid, although a continued high standard of living and the desire of well-to-do people for new homes in new districts will be opposing factors.

The slackening of urban population growth will probably call forth increased competition between cities for each additional person, with correspondingly increased efforts on the part of chambers of commerce and other civic organizations in offering inducements to attract new industries. The degree of success attending these efforts, together with differences inherent in location, will allow some cities to gain in population while others lose, causing greater inter-city differentials in land value trends. Already evidences are present of such changes, for in spite of fairly large gains in cities as a whole and a larger national gain from 1920 to 1930, 226 cities of over 10,000 population declined in population compared with 139 in the decade from 1910 to 1920.

However, the future of urban land utilization may be affected more by the possibility of change in city organization than by future population growth, though the latter does set the limit within which the former works.

Traffic congestion in relation to decentralization; the relative costs of decentralization and subways or doubledecker streets—these are instances in point.

Differences in the rate of growth of various age groups should have some effect on future land utilization. The probable increase in the number of old people in 1975 and the only slightly larger number of persons under twenty should make possible greater concentration of urban population in residential areas. The older members of the population require less room than the younger, and thus tend to swell the apartment-house population. The effect of these age groups on the number of schools, old people's homes, playgrounds, and golf courses offer opportunity for speculation as to future land utilization.

What effect the decrease in the proportion of children will have on the need for low-grade tenement house districts, which are now so filled by large families, depends in part on what happens among the increasing groups of people past fifty years of age. The ratio of adults in the best working ages to younger and older persons will be somewhat lower in the future than in the past, the relative decrease in children being more than offset by the increase in old people. If unemployment difficulties of persons over forty-five and fifty continue, the dependent age may replace part of the children in crowded tenement districts. On the other hand, if these difficulties are solved, the result may be a higher standard of living and a decrease in this type of congestion in urban living.

The increase in the proportion of older persons in the population will probably increase the conservative nature of the population, if conservatism varies directly with age, and the influence of this type of thought on our land policies may be far from negligible.

These are some of the probable effects of population growth on land utilization during the remainder of the century. Certain land problems of more or less import must be omitted; others may not become pressing until later. One land problem, in particular, that has long been important in China, is not likely to become so in the United States by the year 2000. With the slowing up in population growth and the increase in longevity, we can postpone farther into the future the time when our descendants need worry greatly over the amount of land tied up in burial grounds.

Louis I. Dublin.—Population forecasting has been more profitable than we have imagined, for in the United States we have been misled by appearances of population increase; the country had been going forward with rapid strides. But the tendency to increase is drawing to a close and we are approaching balanced population. An indication of such a result might have been seen in the age distribution of the population. The slowing up of immigration with the consequent reduction of persons of child-bearing age together with the declining birth rate are important factors in the slackening of population increase.

What remains is to secure general recognition of the economic significance of this declining population growth. Correction of the tendency to base production upon an assumption of rapid population increase is an instance in point. Other problems to be considered are the effect of stabilized population

upon standard of living, limitation of the market, demand for labor, and the compensating elements of improved skill in management, better use of leisure, and increased social control.

H. Morton Bodfish.—For the provision of homesites, as for the provision of most economic goods in this country, reliance has been placed on private initiative. But gradually we have been moving away from the laissez faire policy of our ancestors and toward public regulation of business, particularly that "affected with a public interest." This movement has recently spread to the regulation of the merchandising of urban land.

Since its inception city planning has been largely remedial, improving traffic conditions, increasing recreational facilities, and promoting the city beautiful and economic. But a new trend is noted, one that is preventive, rather than merely remedial. This constructive tendency embodied in subdivision control ordinances involves anticipation; it takes land at the time of its urbanization and regulates its use in the light of a plan for the future in an effort to forestall subsequent remedial measures.

The method is the establishment of certain minimum standards to which newly subdivided areas must conform in order to be accepted for public record. The pattern for such regulation is found in private control of the subdivision process which is incorporated in restrictions placed in purchase contracts or deeds to the individual lot buyers. Since such regulation is contractual in character, it can be much more inclusive than can public regulation. On the other hand, it may result in a spotty urban layout for the very reason that it is so flexible and individual in its form and content. But taken together, public and private control may constitute a comprehensive regulation of subdivisions—the one indicating the outlines of the city pattern and setting minimum standards and the other supplementing it with more specific regulations which give the necessary variety to the urban layout.

A major reason for public control of subdivision development is the desire of the city for adequate and conforming streets. A less structural reason is expressed in the idea of the "creation of a neighborhood environment." Here the emphasis is on the use of the lots and from it flows the trend, which is characteristic of the best planning thought today, that a developer should be required to make sites usable before they are sold either by installing all improvements or giving bond to insure their installation.

Control of the subdivision process is exercised by ninety-four cities in the United States. The scope of authority of these ordinances varies greatly from city to city but a clear trend is evident toward an elaboration and extension of these regulations. In addition to specific stipulations as to the form of the map to be submitted to the planning authority for approval, subdivision control includes, in greater or less detail: regulation of street widths, curvatures, profiles and interconnections and of lot widths, depths, areas, and shapes; installation of utilities or the provision of a bond therefor; provision of recreational areas; specific requirements to be followed in securing the approval of the plat; and safeguards against arbitrary action on the part of the planning authority.

The legal basis of this type of control has been founded largely on the

police power, which has great flexibility and possibilities for further extension of social legislation. But other sources of legal sanction are also available, such as the recording powers, eminent domain, and extra-territorial powers. Regulation of metes and bounds subdividing is an instance in point. All states provide for the recording of instruments of real estate transfer but only part of them require description by map instead of by courses and distances. Where maps are required, occasion is afforded for the application of public control through insistence that the subdivision meet certain standards established by the planning authority before the plat is admitted to the public record. The discretion which is exercised at this point lies, not in the recording officer, but in the planning authority. Thus, this type of control, although largely a police power device, is supplemented by the state's granting or withholding the sanction of the public records.

Several recent cases have recognized this method of control over the subdividing process. *Windsor* vs. *Whitney* (95 Conn. 357, 1920) upheld the desire of a planning commission to prevent a builder from erecting a house in a private street not approved by the planning commission. The decision is an education in the arguments for community development and against undesirable city or land development. The case has contributed greatly to the establishment of planning powers, especially those affecting the public control of subdivision.

Two other outstanding cases should be mentioned. They are *Ridgefield Land Co.* vs. *City of Detroit* (241 Mich. 468) and the *Prudential Co-op Realty Co.* vs. *City of Youngstown* (160 N.W. 695), both decided in 1928. In the Ridgefield case the right of the city to withhold the public records because a subdivider would not make his street width and dedication conform to a master plan was contested. The court stated that in its opinion "it [the city] can, however, impose any reasonable condition which must be complied with before the subdivision is accepted for record. In theory, at least, the owner of a subdivision voluntarily dedicates sufficient land for streets in return for the advantage and privilege of having his plat recorded. Unless he does so, the law gives him no right to have it recorded." In the Ohio case the Ohio supreme court clearly vindicated the jurisdiction of the planning authority outside the city (three miles in this case) in regard to approval of plat by a planning commission before it could be recorded.

Two outstanding problems arise in the public control of subdivision if control is going to do more than merely assure desired physical planning. The first is the regulation of subdivision so that the purchaser will receive a completed and usable site with the minimum utilities and accessibility; it means "finished-product" or "home-site" subdivision. The second is some regulation of quantity in order to check the ruthless exploitation of the public and premature devastation of surrounding rural areas, a cause quite justified on several grounds.

The trend toward insistence on complete development is so significant that we can profitably examine the legal basis for this extension of the typical requirements. The legal basis of public control which requires major capital expenditures before a plat can be recorded may be the second cornerstone on

which control will build after having achieved success in the regulation of general layout, lot sizes, block lengths, and the like through the police power.

A significant decision in subdivision control history was rendered as early as 1920 by the Michigan supreme court in the case of *Allen* vs. *Stockwell* which held that the city of Pontiac might refuse to approve a plat unless streets were graded, sewers, and drains installed, and sidewalks constructed or unless the owner furnished bond to secure these improvements. There are cases to the contra; for example *State ex rel. Lewis* vs. *City of Minneapolis* (168 N.W. 188) where it was held that the City Council was without authority to require that the street be graded as a condition for the approval of the plat. This decision rested on the theory that the law provides methods of paying for such street grading and that therefore the burden may not properly be placed on the owner of tract.

In other cases the right of a landowner to subdivide his lands and sell them is recognized as a valuable right and statutory requirements as to the manner of platting and the necessity for recording are not intended to abridge this right "but rather to avoid confusion and establish some rule of uniformity in its exercise." (*People* vs. *Massieon,* 200 Ill. App. 86.) This points to the somewhat uncertain ground on which legal controversy may arise in forcing the subdivider to produce a usable product before admitting his plat to record. Any reticence in the courts in applying the *Allen* vs. *Stockwell* doctrine would curb the enforcement of "home site" subdividing as against raw land selling.

When we come to regulation of quantity of subdivision, the question arises: what are the possibilities of eliminating overproduction or limiting the quantity of lots produced? In the last analysis subdivision and the sale of lots is the result of acquisitive land merchandising based on hopes of speculative profits—a hope which has not been diminished by single tax agitation nor the slowness of economics and economists to see the cost side of land value. The contribution of Dr. Richard T. Ely to economic thought in this connection should be widely recognized as righting one of our very warped economic conceptions. The exclusive approach to rent theory through the marginal and differential analysis without reference to cost aspects has been rightfully indicted by Professor Ely. Uncontrolled development, aside from physical or community considerations, has resulted in thousands of personal investment tragedies and the characteristic dead market for all subdivided lots even for the hundreds which may be available with full utilities. Studies of lots platted have indicated startling provisions for cities twice the present size. The costs both individual and public are enormous.

Subdivision control does not yet regulate quantity except through indirection by requiring installations of utilities. Developers are forced to command more capital and proceed in developments proportioned to the financing available for their improvements.

Are there other developments in the realm of city planning which will accomplish regulation of quantity? No comment on attitudes of developers, financing organizations, and buying attitudes of people is made as our interest is that of examining public control. Possibly through the development

of open-zoning we may take the interesting step of establishing agricultural, recreational, or non-urban areas and developing here a device of subdivision control which will strike straight to the heart of the quantity problem. It can or may prevent subdivision, although its legal basis for this purpose seems highly questionable. It would be hard to prove that a man should or should not lay out and sell town lots for the reason of "general welfare." Some precedent is found in connection with conservation of resources; for example, an owner may not cut trees because of their effect on floods or droughts.

Although one or two zoning enthusiasts are discussing the possibilities of this type of public control, the recent *Nectow* vs. *Cambridge* case should be recalled, wherein the court clearly indicated that zoning now established must be applied with extreme reasonableness and with full regard for present rights and uses.

As a check on quantity a certificate of convenience and necessity has been mentioned. Such a procedure would probably run afoul in the courts and be limited to installation of improvements which helps the lot buyer but very little. Restraints of this character are now exercised by some cities which refuse building permits upon unapproved tracts; in one case no permits may be issued on lots sold by metes and bounds description. This type of control is too late in its application; the injury to both land and customer has already been committed and public officials are merely restraining innocent parties.

Some control of quantity might be welcomed by the business itself, which has been most episodic, and characterized by dramatic selling and overproduction in prosperous times and by growing weeds, rotting stakes, and empty developers' offices in other times. Such a business does not usually attract the type of entrepreneural skill which is responsible or permanent. It should become and remain an industry attractive to men of ideals and ideas.

There are numerous problems in the practical application of control. In the first place the application of common minimum standards to large metropolitan areas is difficult at best. The somewhat unestablished legal foundation of subdivision regulation has led planning groups to frequent compromise rather than to controversy. The refusal to approve a development where there is an absence of utilities and where they cannot be obtained involves considerable courage, especially in light of legal consequences which might hamper the general development of control. Another practical problem in public control arises in the establishment of standards sufficiently high to insure something other than mere physical sizes and street co-ordination.

To the growing city, with everyone from real community developers to plain "strong arm" subdividers participating in the provision of building sites, the benefits of public control need hardly be emphasized. Certainly there is no argument as to the desirability of wider lots, the presence of minimum utilities, the co-ordination of land planning and future utilization, and community considerations. With regard to the purchasers' investment the case is less clear. We cannot blind our eyes to the occasional appreciation that has come to the lot owner in the period of processing from a raw

lot to a homesite with full accessibility and utilities. However, it is difficult, if not impossible, to judge values. It would seem that the lot value is more likely to be sustained if the purchaser invests at the point where the lot is a homesite and really usable for the one purpose that can ever give it value. With regard to the developer, subdivision control offers the numerous inconveniences of submitting plans and projects to public officials and, should the developer be located in those areas requiring installation of some utilities, he must have in hand the necessary capital requirements or he is precluded from development work. But not even the most optimistic worshipper of freedom of enterprise will argue that, if a man can sell little pieces of land regardless of the later effects on the community or the purchaser, he should be allowed to do so. Developers have been assisted materially in some cases by the planning or controlling groups. To the good developer, subdivision control removes a vicious portion of his competition and utility requirements recognize a business trend to which he has already adjusted.

Finally, we are at the threshold of conscious guidance of physical development for our residential communities. Public control is rapidly testing and expanding its legal foundations. The way is fairly clear as regards quality of product and quantity is influenced by the minimum standards for quality. Direct control of quantity is as yet a hope.

The present obvious overproduction in no way diminishes the problem. We have habitually and expensively overproduced our needs. It is significant to find a group of developers in a recent conference discussing possible means of bringing state regulation of quantity into being.

Robinson C. Newcomb.—The two objectives of public control of land subdivision are to improve quality and to limit quantity. One method of accomplishing these ends is for the planning body to refuse to record those plats which do not meet the standards. This method is said to be weak but it seems likely that, if the planning authorities go slowly in their control, the courts will follow them.

With reference to the restriction of quantity, a better control device is the possession by the plan commission of a body of statistical information which will enable it to say to the subdivider that already too many lots have been provided in a given area. Then if the banks are armed with similar information, this method of control is greatly strengthened. Such measures would not be applicable to all types of land, for, in the case of certain specific land needs, subdivision to meet those needs would be allowed and would receive the support of the banks, if all other aspects of the proposal met their approval.

ECONOMIC THEORY—INSTITUTIONALISM: WHAT IT IS AND WHAT IT HOPES TO BECOME

Paul T. Homan, *Chairman*

M. A. Copeland.—A natural science viewpoint requires important modifications of neo-classical economic theory. Theories should be adapted to empirical testing. As a branch of biology economics should be consistent with evolutionary biology. The historical limits of its hypotheses should be specified. While economists are concerned with functions of institutions and with social pathology, they should carefully distinguish normative from descriptive judgments.

The following changes in neo-classical theory are suggested:

1. Standards of social policy should be put into statistical terms.

2. Marginal utility theory is a psychological (not an economic) hypothesis and is controversial, tautological, and metaphysical. Socio-historical theories should be substituted.

3. The law of supply and demand applies to some markets—approximately. In others it applies only to some price movements. Recognition of multi-dimensional products and of the dependence of carryover demand and supply upon future prices is needed. Some markets are neither perfect competitive markets nor perfect monopolies; they are a complex of competing monopolies. These "exceptional" cases are of increasing importance.

4. Marginal productivity theory and theory of profits have confused description and appraisal. "Profitivity" should be substituted for "productivity." Overhead costs have led to restraints on competition; distribution is often on a non-marginal-productivity basis. Direct-overhead cost conversions are of fundamental importance in many economic problems. Poor market information often leads to production cycles. *De facto* torts cause much economic waste. The theory of wages of management should be modified for corporations.

5. Say's law conflicts with Mitchell's hypothesis regarding business cycles. Mercantilists were partly right. Monetary theories of the price level conflict with facts.

6. Accounting theory offers a basis for including fiscal policy in the theory of cost and price.

Much of the older theory remains—but it needs more precise delimitation, a partial reformulation of problems, and recognition of institutional changes. Theories of industrial government are economic theories as truly as price theory. Theories of price and distribution are a part of social theory not sharply marked off from the rest.[1]

Eveline M. Burns.—The progress of institutionalism as a positive force in economic study in the last fifteen years has been hindered by the entrenched position of other approaches but more by the vagueness of the concept itself. Thus it has been erroneously identified with quantitative economics, with welfare economics and with various views of psychology believed to undermine

[1] Professor Copeland's paper is to be published in full in the *American Economic Review* under the title, "Economic Theory and the Natural Science Point of View."

hedonism as the fundamental economic assumption. Institutionalism as an approach which stresses the interactions between social institutions and economic relationships and aspects of behavior, aims to present an orderly arrangement of economic phenomena in which institutions are elevated from the status of the exception and the footnote, and integrated with the main body of economics. Types of institutional approach are exemplified in the work of Veblen, Max Weber, J. Wedgwood, J. M. Clark, J. R. Commons, A. Berle, G. Means, W. Hamilton, and H. Wright.

To become a serious rival to "orthodox economics" institutionalism needs a framework within which contributions may find their appropriate places. There is no inherent reason why students trained in the discipline of orthodox or equilibrium economics should not produce work on institutional lines, but the absence of such work suggests that the emphasis has been in another direction, and may justify a claim for a new training that will produce institutional economists.

There is need for a tentative delimitation of the more peculiarly economic aspects of behavior and for some agreement as to the definition of economically relevant institutions, in order to equip institutional economists with a set of analytical tools, and to avoid the grave danger of a lack of focus. Cannan's work offers a possible attack on the first problem, but we still await searching studies of the nature and changes suffered by economically relevant institutions. The work of Weber and Sombart suggests the ultimate possibility (implicit but not fully developed in the concepts of economic historians concerning stages of development of types of economic societies) of even wider generalizations concerning the various forms of social life. The hope for progress lies not so much in a reiteration of the inadequacies of the older approaches as in a positive attempt to explore the scientific possibilities of the new.[1]

J. J. Spengler.—That neither speaker has delimited or defined institutional economic theory seems to me proof of the pragmatic health of contemporary economics. Dogmatizing on methodology in economics is futile. No one method can be set up to the exclusion of all others. If economists are bent upon aping the physical scientists, let them at least ape the methodological pragmatism of the physical scientists. The business of the economist is to define his problem and then to solve it as best he can by use of existing methods and any other methods he is ingenious enough to devise.

I find myself in close agreement with the points made by Professor Copeland. If I knew what Dr. Burns considered to be the positive contributions of the past decade I would know whether or not they were marked by a new orientation. Although I agree with Dr. Burns that the institutional economist is primarily interested in giving due weight to the influence of institutions upon economic behavior, I do not agree that the institutional approach, to become of value, must await the development of a new theoretical framework or of a sharper demarcation of economics from the other social sciences.

[1] The paper read by Dr. Burns will be published in full in the *American Economic Review* under the title, "Does Institutionalism Complement or Compete with Orthodox Economics?"

I question whether such a framework would be any more realistic than the orthodox framework, and I doubt whether any delimitation of economics would prove fruitful. Definition of what is meant by an "institution" and the development of a series of questions to be put to problems by institutionalists are necessary, however, if research effort is to be effectively concentrated.

To place economics in a different genus of science other than the natural sciences seems to me unnecessary. True, laboratory experiment is not applicable in economics. True, the economist deals with an indefinite number of varying factors not susceptible of measurement or of complete control. But science, as Pearson emphasizes, consists in the application of the method of logically trained minds. Science is but technique of deriving knowledge to satisfy man's curiosity, or, more frequently, to enable man to adjust himself better to the world in which he lives. Science abhors complexity when relatively simple and stable explanations are obtainable. Steps in scientific procedure accordingly are the same in all fields: hypothesis; accumulation, classification, and organization of data; and finally, a brief, generalized, résumé of the sequences observed under the conditions studied.

The real controversy among economists centers about the respective merits of static and dynamic analysis and about the social function of economics. Quixotic tilting at dynamics and statics is fruitless. Theory seeks to discern fundamental tendencies in the complex mass of phenomena and to separate and trace them to their ultimate consequences. Static and dynamic analysis are each superior in certain areas of investigation, although the superiority of the latter will be broadened as its technique improves and raw data are accumulated.

Emphasis upon the dynamic approach will involve use of what P. W. Bridgman calls operational definition; namely, defining concepts in terms of the operations whereby they are fixed. Concepts such as profits, wages, velocity, mobility of factors of production, will need to be defined in terms amenable to statistical and accounting treatment. As a result economic terminology will become precise, and meaningless problems such as the ultimate determination of price will be ruled out.

Institutionalism must be a part of both the static and the dynamic approach. At any one time, and through the course of time, productive, distributive, and consumptive processes flow within the institutional dikes of the community. These dikes impede the postulated classical tendencies toward equilibrium and fix somewhat the channels of change in the future. J. B. Clark, Marshall, and others recognized the existence of institutions but failed to take sufficient account of their effects. The main contention of the institutionalists, therefore, seems to consist in the emphasis that any system of economic theory, whether it aims at social control or at mere explanation, must give due weight to the rôle of institutions and must allow for more flexibility in economic behavior than is assumed in the classical analysis.

The institutional approach requires attentive study today because of current emphasis upon need for institutional control of economic behavior. Economics has been elevated to the level of social engineering and is sup-

ported chiefly on this ground. This does not mean that the economist's task is to determine social policies. It means rather that the economist has become a counsel to conflicting vested interests to whom he is attached by pecuniary or emotional ties. His function is to advise each group how it may most economically achieve a given goal. Hence what he advises one group may run counter to what he advises another group. He can counsel Dives and he can aid Lazarus but he cannot, as an economist, give identical advice to each. He cannot set up general standards of common welfare or social policy because there is no one common welfare or one social policy in a society of classes. Ethics, as generally understood, cannot form an integral part of economic theory until society becomes classless.

Theoretically, economic control is impossible in a determinate universe. But, since man acts as if control is possible, economic theory will be affected accordingly. For emphasis upon control will determine the problems to be solved, and the problems will largely fix the methods.

In short, the economist of the future will concern himself primarily with theory that can be transmuted into social practice. Consequently he will have to consider the factors emphasized by the institutional theorists.

O. H. Taylor.—One of my clearest impressions, after listening to Dr. Copeland and to Mrs. Burns, is that neither of them would be fighting against neo-classical theory, if it were universally understood and agreed, as of course it should be, that such theory is not a body of settled dogmas but is merely a set of intellectual tools, still very imperfect and inadequate.

I think the old conception of economic theory as a settled body of dogmas, or as a comprehensive and completely demonstrated system of truths purporting to give us all the information we should need about economic life and its proper management, resulted from a certain coloring of the interpretation which the older theorists placed upon their own findings by a general philosophy or way of thinking widely current at the time. I do not believe that Ricardo or anyone else ever really deduced economic theories from a priori assumptions such as the self-interest assumption. What they did, I believe, was to observe (in a relatively simple and unsystematic way) the economic life of their times, to select certain general facts about it that struck them as of peculiar or outstanding significance, to set up hypotheses corresponding to their impressions of these facts, and then to reason from these hypotheses, or presumed facts, to other facts which must be consequences of them. But in the process, the basic hypotheses tended to get themselves interpreted, according to the spirit of much popular and scholarly thought of the time, as absolute truths having a much broader meaning than the empirical facts which really suggested them, ever possessed. But to explain this fully would take me too far afield. The important point is that the older theorists, from Smith and Ricardo down to some quite recent writers, did forge useful though imperfectly developed tools for the analysis of economic life, but did also, in many instances, make the mistake of construing their own systems of theory not as mere sets of tools, but as (the only correct) versions of an economic gospel. It is important for us to get away from and beyond this gospel, but it is also important not to dis-

card, but to continue to use and improve, the tools we have, while adding others to them. On this basis I should say, after hearing these two papers presented by two quite reasonable institutionalists, that it should be easy for us all to get together.

In my more specific comments I shall limit myself to the introductory part of Dr. Copeland's paper. There will not be time sufficient to allow me to say anything about the applications of his views developed in the body of his paper. And I have had no opportunity to prepare any comments upon the excellent paper presented by Mrs. Burns.

I agree entirely with Dr. Copeland that there is only one kind of science. The social sciences are not generically different from the natural sciences. The point of view of economic science ought to be, indeed can only be, I think, the natural science point of view. But we differ at some points as to what this point of view is and as to what it involves.

Certainly the ideal of science must be to get its theories, hypotheses, or generalizations into forms that will admit of definite empirical verifications or disproof. But I do not feel that Dr. Copeland adequately recognizes the inevitable difficulties that may always arise, and that have existed in the case of economic theory, in the way of reaching the stage of development in the formulations of theory, that will make this possible. Our belated arrival at the stage of adequate empirical research in economics has not been due to an erroneous methodology. It has been due to the difficulty of getting our provisional body of theory into a shape permitting definite empirical tests. We have not yet overcome the difficulty, but in these days we are making clear progress in this direction.

I do not think I agree that economics is properly a biological science. I am not sure what Dr. Copeland means by this. He apparently does not mean to endorse the old notion that a society is an organism comparable to biological organisms, and draw the inference that biological analogies, rather than mechanical analogies, should guide economic thought. Instead he merely points to the obvious fact that the individual human beings whose behavior makes up economic life are biological organisms. But he himself stresses the fact that economics is primarily concerned not with individual behavior, but with groups and their relations and mass reactions. This seems to me to differentiate our social science from biology.

However, the main point that he has in mind in this connection appears to be that economic theory must be consistent with the biological theory of evolution. This is true; but neo-classical theory, in my opinion, is in no way inconsistent with it, if we remember that the theory of tendencies toward a static equilibrium is merely a useful methodological device, and does not purport to be a complete theory of economic life. The question of the relativity of our whole scheme of economic theory to the social conditions of a certain historical epoch, does not raise any real issue against the orthodox position, either. Of course the details of this scheme of theory presuppose, and have truth and relevance only in relation to, the institutions and the social conditions of our modern world. The more detailed or specific a proposition in theory is, the more narrowly limited is its applicability in

time and space. The only propositions that are valid and significant for all social economies that ever existed anywhere, or that can ever exist and remain economies, are a few extremely simple and broad or general propositions about the scarcity of resources, and its inevitable effects. But these few propositions do not constitute a scheme of economic theory.

I come now to Dr. Copeland's contention that economics must be a normative as well as a descriptive science. If this means merely that it has to criticise the efficiency of our economic system in achieving given and accepted ends, there is no difficulty in agreeing. But criticism of the ends of economic life and of social policy, which are accepted in any given society, is another matter. My personal view is that all values, in the philosopher's sense of the word, are entirely outside of the province of science, but not entirely outside of the province of reason. I think economists should discuss social ideals, but keep this discussion, and their conclusions in this field, apart from their science. But there is no time to go into this.

Finally, a word about the relation of economic theory to the study of institutions. It seems to me that economists may study the relation of institutions to economic life in two quite different ways, from different standpoints. The old political economy, which was developed in the late eighteenth and in the early nineteenth century, was intended to be a science of what society's basic legal institutions and public policies need to be if the economic system is to function effectively in achieving a large production and a wide diffusion of wealth. This is to study institutions, as they affect economic life, from the pragmatic standpoint which presupposes the assumption that men can remold institutions. But Veblen and many others have wanted us to study the evolution and effects of institutions, from the standpoint of historical determinism, which emphasizes the view that institutions make men, rather than the view that men make institutions. Of course, there is truth in both views of this relation; but I think our major stress should be on the pragmatic view. Let us have new institutional studies—the more of them the better. But let us retain and improve our theoretical tools; go ahead, with them to help us, in empirical research; and get on with the building of our science of what social arrangements and policies need to be if our economic system is to function properly, according to the ideals and standards that seem most reasonable to us, as scientists and as cultured men and women of the present age.

William Jaffé.—As institutionalism is a new word, without any generally accepted meaning, it is imperative that each user of the word define it until such time as its connotation becomes standardized or until the word passes out of existence. To Thorstein Veblen institutionalism (he calls it "evolutionary economics") is "the theory of cultural growth as determined by the economic interest, a theory of cumulative sequence of economic institutions stated in terms of the process itself." An institution, in the Veblenian sense, refers broadly to habitual, customary, or current modes of thought and conduct.

References to institutions are as old as economic thought. Even Professor Josef Schumpeter, the severest critic of the institutionalists, condones Professor Mitchell's "institutional contribution" and does not himself disdain

to call to his aid such institutional concepts as ***Privateigentum, Arbeitsteilung,*** and *freie Konkurrenz,* at least as methodological assumptions, in his static discussion of the economic cycle. Clearly not all concern with institutions is institutionalism. True institutionalism appears only when an author treats of an institution in the manner described in Veblen's definition of evolutionary economics. Only when an author uses institutions not as so much constant background but as dramatis personae in the economic play of forces and only when he portrays changes in the character of these dramatis personae as capable of profoundly affecting economic relationships, do we find institutionalism properly speaking. And then the whole thing becomes positively irritating to a priori economists of the classical or neo-classical school.

This irritating quality of institutionalism is a matter of no small importance. An inquiry into the causes of this irritation may lead to interesting conclusions as to the relation between institutionalism and economic theory. The crux of the matter is well stated by Professor Schumpeter who is immensely relieved to find that "Professor Mitchell's pages are remarkably free from any tendency to substitute institutional investigation for economic theory." The source of irritation is, therefore, any attempt to explain economic phenomena in ways other than those consecrated by the customs, habits, and usages of the guild of economists. One is almost tempted to regard opposition to institutionalism as institutional in nature.

The so-called institutionalists by no means confine themselves to the rôle of innocent, passive victims of irascible orthodox tempers. They are actively irritating. There is something infuriating about the way in which Cliffe Leslie, one of Veblen's spiritual fathers, relegates the a priori and abstract method to the scrap heap. And all authentic institutionalists ever after have followed this example faithfully.

It would seem that so great a multitude and variety of phenomena as make up our economic universe would admit of at least two methods of explanation. To be sure, the ultimate aim of science is to include all phenomena within a single explanatory principle; but we have not arrived anywhere near that point yet. Surely the system of interdependence of prices can best be explained by abstract deductive analysis. It is sheer folly to deny that the quantitative relations in which economic ponderables stand to each other at a given moment, and the changes which take place in these relations from moment to moment, provided that the changes are small enough, are best explained by methods first devised by Cournot and Walras. But is it any less foolish and dogmatic not to see—as Edgeworth saw—that these methods are limited in their applicability, if for no other reason, "for want of a unit for measuring advantage in a subjective sense"? Is it really so reprehensible a thing "to substitute institutional investigation for economic theory" where the type of economic theory Professor Schumpeter has in mind fails? Take the Marshallian concept of "net advantages." How can one approach an understanding of it otherwise than by an institutional investigation? Take the phenomenon of profits. Should we content ourselves with calling it dynamic without penetrating into the changing institutional forces which underlie these phenomena? Take interest. If the theories

so far devised are not mentally satisfying, may it not be because of an institutional hesitancy to exploit the possibilities of institutional investigation already suggested in this connection by David Hume? Take the impasse to which the study of economic dynamics has come. Is it not for want of courage to see in these phenomena manifestations of cumulative cultural changes that the whole discussion of dynamics is where it was in the beginning? Much institutional investigation has fallen deservedly into disrepute both on account of the bad workmanship in much institutional research and on account of the condemnatory or justificatory implications that have insinuated themselves into the argument. Need abuse of a procedure blind us to its uses? May we not lament the tendency to sacrifice economics to methodological idols, and intolerably jealous idols at that, whether the idol be abstract deductive, historical, statistical, or institutional?

AN APPROACH TO WORLD ECONOMICS

By Ernest Minor Patterson
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It is now painfully trite to observe that the world is an economic unit. Historians and political scientists as well as economists proclaim it and myriads of popular writers are illustrating it. Each area and each economic group is more than ever before dependent on the rest and every irregularity in the operation of any part of the world's economic machine has widespread effects.

Yet the approach of the economists has been largely a national approach. At times, even the titles of their works stress this viewpoint. Adam Smith wrote *The Wealth of Nations* and Friedrich List, *A National System of Political Economy*. Within a decade, Professor T. N. Carver entitled one of his volumes *Principles of National Economy* and in the introduction stated, "Not only is this book written from a national point of view; it is frankly a theory of national prosperity." The same author's *Principles of Political Economy* is dedicated "to all those who care to see their country grow strong and great."

Brief references do not in all cases do justice to the writers named. Actually their breadth of view is greater than these quotations indicate. But an examination of the texts, not only of the economists just mentioned, but of nearly all others, reveals a strong tendency to present theories and problems with an emphasis on the national rather than on the world viewpoint. An apparent exception is found in the discussions of international trade, protective tariffs, and foreign exchange. But these topics are ordinarily presented as national or international rather than as world issues.

There is, of course, an important distinction between international economics and world economics. International problems exist because each national area is organized to a considerable degree as an economic unit whose interests are at least in part opposed to the interests of other areas similarly organized. These may be considered and analyzed as though they were normal and solutions may be proposed as though the end to be sought is the prosperity of a given national group—perhaps at the expense of the rest. This is the approach of international economics. It, at least, tends to stress the differences between countries.

World economics, on the other hand, does not overemphasize differences in interest but makes community of interest evident. Instead of asking, as does Professor Carver, "What makes a nation prosperous?" the inquiry to be pressed is, "What makes the world prosperous?" An adequate study of national economy does not mislead the reader into

thinking that there are no stresses and strains and conflicts within a given country. There are divergences of interest and conflicts, for example, between capital and labor, or between producer and consumer. Yet the reader is constantly kept aware of the interdependence of all groups and of the extent to which the welfare of each is contingent on the prosperity of the rest. An interpretation of the world economy will similarly give attention to the world as a whole although noting to an appropriate degree those conflicts—international and otherwise—that interfere with effective functioning.

Every analysis is made for a purpose, for the solution of some problem or problems. This does not mean that a scientist is desirous of supporting the interests of any group in society against any other group. He is presumably disinterested. On the other hand, it is naïve to suggest that he is merely collecting data and formulating generalizations without any purpose. Newton, Darwin, and others in natural science and the great leaders in social science have, of course, done their work chiefly in the hope and belief that some purpose would be served by their effort. If the purpose was not the solution of any immediate individual or social problem, it was at least to ascertain the truth or falsity of some hypothesis.

There is today no greater need than to find ways of preventing international warfare. It is quite generally believed that wars are due in part to economic causes. Until now, however, most of the analyses of world affairs have been made by historians and political scientists. The economists have written about foreign trade and foreign exchange and other equally limited subjects. It is time for more of them to attempt a study of all aspects of economics for the world as a whole. The subject is world economics—not national economics and not international economics—and the purpose should be a portrayal of the facts in such fashion that we can know not what makes a nation prosperous but what makes the world prosperous and peaceful. If this is done thoroughly, we may then know better than at present what statesmen should do to further world prosperity and peace. In the analysis, appropriate attention must be given, of course, to existing international strains.

The situation may be presented differently. In the field of politics it is increasingly clear that nationalism leads to disaster. Analyses that start with national groups and with such assumptions as sovereignty, independence, and equality are less and less helpful. As statements of political fact they are increasingly dubious since it is more and more difficult to find states that are really independent, that are actually equal to other states, and whose sovereignty has not been so dissipated and qualified as to be hard to locate.

Many a political analysis still assumes the existence of these attributes

and thereby emphasizes the stresses and strains and antagonisms of world politics rather than its unity. Witness the numerous treatments of international political relations in which the writers assume states each with rights to which there is no logical limit. If political science is to be a body of thought with whose aid the world can more effectively be governed, another approach would be more helpful. It is not a matter of ignoring any group of realities but of presenting them in such relationship that desirable results can be secured. It is dubious whether a treatise on international law that elaborates the law of war and minimizes or at least unduly condenses its discussion of the law of peace is really serving mankind.

Economic nationalism is similarly a liability in the twentieth century. List's approach may have been the wise one eighty years ago, but it is not the best one for today. Much economic life is organized on national lines; e.g., systems of taxation and social insurance. Much is distinctly international; e.g., the rivalries between national groups displayed through protective tariffs, efforts to secure markets, and attempts to control supplies of gold. More and more, however, there is need to view economic life as broader than national boundaries and in a manner that will not unduly emphasize friction between national groups. The time is ripe for a world outlook.

To the suggestion that there is a body of principles that may be referred to as world economics, or even as international economics, it has been replied that economic principles or theories or laws will be the same whatever the field of inquiry. Value will vary directly with demand and inversely with supply no matter what the latitude and longitude. Gresham's law is held to be universal and the principles of increasing and decreasing returns are said to operate in all countries. The doctrine of comparative costs so elaborately stated as an explanation of international trade is merely an amplification of the ordinary theory of value. Such an outlook is that of Loria who refers to "the true economic law, immutable, independent of space and time, and therefore fulfilling all the requirements of a scientific law."

Perhaps this view is correct. But even if it is accurate, there is still much to be gained by stating the principles in their larger setting. This will aid the economists but be even more helpful to the laymen who cannot readily translate the narrower statement into the wider one. Moreover, it may be that at least some economic principles will be modified or even fundamentally altered when we attempt their expression for so complex an area as the entire world.

There should at any rate be an attempt. Like our traditional economics, it will undertake an orderly arrangement and interpretation of economic phenomena but it will do so for the world as a whole and not

ith undue attention to any one country or to any one form of economic fe. Also there will be adequate emphasis on the stresses and strains hich are to be found between different national groups. These must appropriately analyzed and interpreted since at least one purpose of world analysis is to indicate what makes the world prosperous and to lp mankind eliminate war which is so destructive of prosperity.

Brief reflection will suggest many characteristics of a world approach. Much is familiar ground. Division of labor, overhead costs, iminishing returns, and a long list of other generalizations will have heir place. Some features, however, will be prominent, if not peculiar, nd two may be mentioned.

First, we may refer to the individualism or particularism which is so haracteristic of ordinary economic analysis. There have been many rotests at the extent to which it dominates our theorizing. It has been rgued that the individual ego as usually conceived is a fiction, that our hoices are not individual, but group, that monopoly has, to a degree, isplaced the higgling of individuals in the market, and that laissez aire has been largely abandoned. But whatever may be true in intraational affairs, there is much in international economic life and in world conomic life that must be analyzed with a different terminology.

Illustrations will help. In the past, we have discussed gold movements, discount rates and foreign exchange quotations by appropriate eferences to Ricardo's theory of the distribution of the precious metals, Goshen's theory of the foreign exchanges, and the quantity theory of money. Transactions between individuals (or, perhaps, organized groups of individuals) raise exchange quotations to the gold export point and gold is exported. Forces are set in operation that lower prices in the country exporting gold and raise them in the goldimporting country. Interest rates are altered in both countries and various correctives soon established a new equilibrium. The initial influence is usually given as the buying and selling of individuals in one or all countries concerned.

But today there are other influences at work. Central banks alter discount rates which affect the general rates of interest (particularly short-time rates) and also have an immediate repercussion on foreign exchange quotations, and, to a degree, on trade movements. Instead of individuals "higgling" in the market, the central banks, perhaps influenced by the desires of their governments which are presumably representative of millions of people in their respective countries, take the initiative. This is certainly not individualistic or particularistic behavior.

In May, 1927, there was a large movement of gold from London to Paris. Just what influences caused it I do not know, but we may assume

that individual purchases and sales of sterling brought the quotation for pounds in terms of francs to the point where it was advantageous for one or more dealers to ship gold from London to Paris. The movement, however, was serious for the British, and hence serious for the people of other countries, since economic life everywhere in the world is quickly affected by disturbances in any area.

Action was prompt. There was no delay until interest rates rose and prices fell in England and the opposite occurred in France. It was known only too well that this might not occur and that to wait on the guidance of an "invisible hand" would be not only wearisome but fatal. The "automatic correctives" of an individualistic economy were not relied upon. The governors of the Bank of Germany and the Bank of England and the deputy governor of the Bank of France hastened to the United States for a meeting with the governor of the Federal Reserve Bank of New York. In a very short time, rediscount rates were lowered in the United States and the French pull on London was lessened.

We cannot pause now to discuss the why's and how's of this incident. For our immediate purpose it is necessary merely to notice that four men representing their respective central banks and presumably with the knowledge and approval of their respective governments adjusted discount rates, determined gold movements and perhaps influenced price levels. Their actions were not taken in order that they might gain as individuals. They were representatives of great national groups, and each presumably was striving to aid his own people and to do it with due regard for the welfare of all.

This incident was particularly striking and involves two points. One is the fact that central banks in their attempts to further the welfare of their own national groups can and do displace, or at least supplement, the higgling of individual dealers in the exchange market. This is a fact regularly recorded in accounts of foreign exchange practice, although not adequately recognized in theory. The other is that we may and do have concerted action for the interest of several national groups, a procedure that will be increasingly common hereafter, through the conduct of the Bank for International Settlements. Both points illustrate our contention that many important phenomena in the international or world field are not to be explained by referring to the bargaining of individuals in a laissez faire régime. Of course, no modern economist does this, but hereafter our theory should more definitely and positively present the other and more accurate explanation. Interest rates and exchange quotations are determined in part by the individual forces usually listed but to an increasing degree by groups acting through their governments or their central banks.

Similar, though not identical, comments may be made about the

production and supplies and prices of many products: Brazilian coffee, British rubber, Chilean nitrate, and the rest. Volume of sales and hence prices, and, to an important degree, production have been influenced by group considerations. Prices of these products may, perhaps, be explained by the law of monopoly price but we do not yet have as complete an analysis as we need of the considerations that have influenced government officials in their decisions. And when we do have these explanations, they may be only slightly suggestive of the older individualism.

Another important characteristic of world economics will be the extent to which it must give attention to related fields of study. Particularly is this the case with law and with political science. Fortunately, the old barriers between related sciences have largely disappeared. Under the leadership of a few men trained in law and in politics as well as in economics, we are beginning to see that economics cannot and should not be developed in a vacuum. Our legal and our political institutions profoundly affect the production, consumption, and distribution of wealth and also have much to do with values.

The broad field of international and of world economics is particularly one where the student will need to be informed regarding political matters. The material is vast and the problems are intricate. This is so much the case that many of the approaches toward the solution of great world issues is through political or semipolitical organizations. Thus the World Economic Conference of 1927 was called for economic purposes but its delegates were chosen by their respective governments and voted as such. Many world economic matters are being studied by the League of Nations, a political organization which can never entirely ignore political considerations. Even the International Chamber of Commerce, although nominally a private body, is organized along distinctly national lines. For the present and, perhaps, indefinitely if not always, the student of international and of world economics must be a student of politics.

Let us hope he will also be a student of ethics—at least, to an extent that will prevent him from using the loose terminology that is so common in most political and economic discussions. It may be appropriate to observe that Professor Carver to whom we have already referred, definitely attempts (in his *Essays in Social Justice*) to avoid the haziness of which so many of us are guilty. We may disagree with his concept of justice, but he at least formulates one and attempts to use it. There is a definite need for less twaddle about international injustice and for far more clarity in discussion of an "equitable" apportionment of the raw materials and of a "fair" division of markets.

A world analysis will then retain many of our theories in their familiar

forms and will merely modify others or give them a new setting. It will force us to give more adequate attention to political science while we ought to orient ourselves better in group psychology and in ethics. But there are still other matters in which entirely new work may be necessary.

National economics has its difficulties, but its task is simplified by the fact that it deals with a somewhat homogeneous situation. Economic structure shows differences but no extreme variations from one part of a country to another. Political organization, laws, customs, habits of mind, and the other factors of importance are similar in all sections. This is true, not only within any given country, but throughout certain groups, as, for example, the industrialized areas of western Europe and the United States.

But a world survey presents the greatest diversities and hence introduces complexities. The economic institutions of the United States, China, India, Russia, and Italy differ widely as do habits of thought, legal institutions, customs, and standards of conduct. These divergencies are extreme and generalizations are correspondingly difficult. If we assume that marginal utility has some relation to values in the United States, can we be certain that it is an equally correct explanation in Russia? If marginal productivity aids us in understanding our own wage levels, is it equally helpful in Italy where the state seems to be far more influential? Rent may be thought of as merely a differential but if the word is used to refer to payments exacted by landlords from tenants, is our usual formula appropriate in India?

The difficulty may be met by contenting ourselves with an elaboration of comparisons—by developing comparative economics. Or we may continue to study international economics with the result that we continue to emphasize the differences between national groups and tend to exaggerate national prosperity rather than world prosperity.

Much more is needed because these contrasting economies are not separated from each other but are brought more and more into contact. If this contact is not to be conflict and if economics is to be helpful we must have analyses that will explain these contacts and interrelations in such fashion that the conflicts can be avoided.

A similar situation has developed in the field of international law. A point has now been reached where a codification of international law has become necessary and it is my understanding that the major difficulty is the sharp difference between the fundamental legal concepts of the Latin and the Anglo-Saxon. A comparable clash is to be found in the economic institutions and customs of the various parts of the world.

Another problem to be faced is the increasingly dynamic character of world economic life. This is, of course, one of the difficulties in any economic analysis. Accountants are puzzled over the handling of obso-

lescence; railroad experts are distressed at the sudden emergence of new methods of transportation; manufacturers are concerned over new inventions and rapidly changing styles. "Business has wings" as Ernest Elmo Calkins puts it. The static state in which profits tend to a minimum or completely disappear is more and more a fiction. With our increasing tempo, rent, interest, and wages as well as profits appear and disappear in a bewildering fashion.

In the broader world area this is perhaps even more harassing. Within a very few months we have witnessed a business collapse that has not only brought distress within each country but has caused intense suffering over great regions. All countries in which silver is a leading product, or in which it is a monetary standard, are heavy losers by the rapid decline in its gold price. Vast debtor areas such as Latin America are suffering because the prices of their products have fallen so rapidly. Their distress has in turn reacted on those other regions from which they formerly made many of their purchases.

These recent changes are peculiarly extreme but they are the more serious because the years preceding the collapse of 1929 were equally years of change although not in a way that brought so much immediate distress. But a world in which British markets can so quickly disappear, in which Japan can come so rapidly to the front, in which Germany can collapse and then promptly recover, and a world in which Russia can be "down and out" but a few years later frighten the capitalistic West with the partial development of its five year plan, is not a static world.

If economists are to be of service in this new era and if economics is to be anything more than intellectual gymnastics a world viewpoint must be rapidly developed. And this is true even though we are speaking of pure rather than of applied economics. For solutions, to be most helpful, must rest on an accurate theoretical basis. Some of our basic theory needs to be reconsidered and at least a part of it restated for this twentieth century need. We must help to ascertain what will make the world prosperous.

INTERNATIONAL INDUSTRIAL RELATIONS: MIGRATION OF ENTERPRISE AND POLICIES AFFECTING IT

By John Donaldson
George Washington University

Since international economic relations are becoming constantly more complicated and important, the writer is in hearty accord with Dr. Patterson's appeal[1] for their more complete consideration. Despite early and recent studies of particular aspects, there seems to be need for comprehensive and co-ordinated treatment of their complex problems and policies. In a book on the subject[2] the writer has undertaken such an organization, resting upon basic geographic and demographic factors and outlining related political, legal, and territorial factors, and then developing an organic concept of national economies, with industrial structures as their core; the resulting international relations were then classified simply as industrial, commercial, shipping, and financial.

With such an approach, the industrial relations become the most fundamental, although in their larger forms they are somewhat newer than, say, international commerce, and have been given rather less academic attention, partly perhaps because they are less matters of public record and do not present such accessible measurement data as statistics of international trade.

These international industrial relations, which have been treated by the writer more fully elsewhere, include many interesting phenomena and policies, and particularly what may be termed "international extension" and "international affiliation" of enterprise (i.e., international cartels, world trusts, and other forms), which are "closer to the ground" than the international flow of goods and of shipping and financial services. Although these processes have taken on a new importance in recent times, it would be a mistake to suppose that they did not occur before, as in exploiting raw materials and building railways and even in manufacturing in foreign countries.

What has very recently been called "international migration of industry" falls within the categories just mentioned, and especially within the classification "international extension of enterprise." The term migration is not very exact when used in this way.[3] Strictly speaking, it

[1] In the paper just presented, and in his recent valuable book on *The World's Economic Dilemma.*

[2] *International Economic Relations: A Treatise on World Economy and World Politics.*

[3] The loose, popular usage of the term "international migration of industry" seems often to connote all international movement of industry. On the other hand it seems to be used sometimes chiefly in connection with the establishment of branch factories, particularly of American branch plants in Europe and Canada. If the term migration were strictly applied to industry it would mean that an industrial unit would be transferred to another country, including all four factors of production.

would mean complete removal of an industrial concern from one country to another, and in terms of the economic factors in production, perhaps the removal of all the moveable factors—labor, capital, entrepreneur—along with the industrial unit. But this happens in extremely rare instances. However, if a rough and convenient term is desired, one may employ the word "migration" and give it the broad connotation it has recently tended to receive in this connection, including extensions and to some extent affiliations. As for the term "industry," it may cover the fundamental aspect of the movement, although in collecting data it is often difficult to separate commercial enterprise.

Data for precise analysis of the quantity, flow, and direction of this so-called international migration of industry, are not readily available, although the movement may rather easily be traced in its broad outlines. Ordinarily, estimates of foreign investments do not provide an index.[4]

But land does not move, even though it is sometimes asserted that a change of title, or a shipment of natural resources, is in some senses equivalent to its moving. One might insist, then, that migration must involve the movement of all the moveable factors. Just this has sometimes happened, not only nationally, as in the case of the shift of New England textile concerns to the South, but also internationally, as in the transfer of jute manufacture from the United Kingdom to India, and of cigar-making outfits from Havana, Cuba, to Tampa, Florida. But there probably have not been a great many cases of this sort internationally. Labor is, of course, much more internationally mobile than was once assumed, but it does not usually move along with the movement of a given industrial concern. As for capital, it is highly fluid internationally, and this applies to both pure interest-capital, in which we are not interested here, and enterprise-capital, which is here important. The entrepreneur, or at least his function, is also internationally liquid. We might, therefore, confine "migration" to cases of movement of enterprise-capital and entrepreneur-function. But the owners of the capital and the entrepreneurs often stay at home and direct operations abroad. This would be in the nature of an extension, as would also be the case where production continues at home and only a branch is established abroad. Altogether, it would seem much more exact and much less confusing, to confine the term "migration of industry" to cases of complete transfer of an industrial organization, with its labor, enterprise-capital, and entrepreneur, and to use "extension" to cover the phenomena under consideration here. But if the term "migration" has come to have the broader meaning it may be convenient to employ it in that way, thus not only laying aside the distinctive use of the word "migration" but also including for practical purposes enterprises producing mercantile and transport services as well as those turning out material goods and non-exchange services. If so, all of the various types of movement involved should be understood when that movement as a whole is being studied.

[4] From time to time there have been estimates, mostly made by private individuals, of the total foreign investments of leading countries, and sometimes these have been subdivided by regions or countries receiving the investments and roughly by types of investment. A careful private inquiry into British overseas investments is now being made and the results are being published in the journal of the Royal Economic Society, but thus far the figures relate only to loans to foreign and Dominion governments, states, and municipalities. *Vide* Sir Robert Kindersley, "British Foreign Investments in 1928," *The Economic Journal,* June, 1930, Vol XL, No. 158, pp. 175-183. The results of another British survey are being published in the *Economist.* Most of these estimates are inapplicable to the present problem by reason of being out of date (there has been a peculiar lack of such estimates in the recent period of greatest development along these lines), and by reason of their not showing types. They are also somewhat less useful for present purposes because they usually have shown only the total amounts outstanding at a given date,

However, some fairly accurate measurements may be made in terms of the financing which is involved, as will be seen in a moment.

Taking this country as a case study, the outward movement of American enterprise had beginnings as far back as the early nineteenth century. It increased considerably just after the turn of the twentieth century, stimulated apparently by a peak of prosperity here and a stringency in Europe. Its great growth after the World War, as indicated by figures for private foreign investments, is, in general, familiar to all. In the latter part of the 1920-30 decade it included a noticeable increase in American branch factories abroad, and this was viewed with alarm by some who considered it an economic desertion which would injure American labor and American prosperity in general.

Meanwhile Congress became interested, and adopted a resolution[5] call-

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and afford no view of trend by periods which might be correlated with changes of policies. However, in the case of the United States, the Department of Commerce has made some useful estimates of value here.

Going back to earlier compilations, in 1900 a careful private estimate of American investments abroad was made, which is of use here since it is generally thought that most of our foreign investments at that time were what the Department of Commerce now terms "direct investments." (Nathaniel T. Bacon, "American International Indebtedness," *Yale Review,* November, 1900, pp. 265 *et seq.*) It indicated a total of $500,000,000 of which the largest single portions were in Canada and Mexico. From then until the outbreak of the World War the movement in general increased. In 1912 another private estimate (John B. Osborne, "Protection of American Commerce and Capital Abroad," *North American Review,* May, 1912, pp. 687 *et seq.*) gave a total of $1,902,500,000, although this total is probably less confined to items of the kind being compared here. The striking withdrawal of European industrial and similar investments in the United States, with which we are not primarily concerned in this study, and the huge growth of American investments of all kinds, public and private, of both interest-capital and enterprise-capital types, during and since the World War are well known.

In the position of the United States as a great creditor the total of war loan indebtedness on November 15, 1929, including funded and unfunded, and accrued interest, stood at $11,829,755,777.51. (U. S. Treasury Department, *Annual Report of the Secretary of the Treasury on the State of Finances for the Fiscal Year Ended June 30, 1929, Document No. 3009.*) But it is noteworthy that private long-term American investments abroad on January 1, 1930, were even larger, being officially estimated at $13,000,000,000 to $15,000,000,000.

Private Long-Term American Investments Abroad
January 1, 1930

Regions	*Investments* (In millions)
In Latin America	$ 5,051 to $ 5,807
In Europe	3,970 to 4,564
In Canada and Newfoundland	3,155 to 3,627
In Asia, Australia and other countries	1,190 to 1,368
Total	$13,366 to $15,366

(U. S. Department of Commerce, *The Balance of International Payments of the United States in 1929,* by Ray O. Hall, T. I. B., No. 698, 1930, p. 31.) However, not nearly all of these vast amounts, even of private long-term investments, involved migration of American industry. In other words these figures, while excluding short-term items, include large portions of pure interest-capital which do not represent extension of American enterprise, although this distinction is difficult to maintain as industrial bonds are sometimes cited both ways.

[5] *U. S. Congressional Record,* 71st Congress, 1st Session, Vol. 71, No. 85, p.

ing upon the administration to make an investigation of the entire matter of investment of American capital abroad and its causes, with particular reference to investments in manufacturing in Europe. This survey resulted in the publication of probably the most nearly complete data of this kind that had yet been assembled for any country.[6] The survey eliminates "portfolio investments" acquired through the purchase of foreign securities publicly offered or through purchases on foreign stock exchanges, and confines itself to so-called "direct investments"; that is, to such investments in the main as those of American corporations in American-controlled manufacturing organizations, petroleum lands, mining properties, public utilities, and plantations abroad, although it includes also minority interest of American corporations in foreign business and properties. If these minority interests and certain mercantile agencies had been excluded the data would be even more exactly useful for present purposes, but the figures do not go too greatly beyond the scope of the industrial problems here considered. Time limit here prevents consideration of further problems in the technique, such as those of classification of bonds and of valuation methods in general.[7]

The resulting total of direct foreign investments outstanding on January 1, 1930, is $7,748,000,000, an amount, incidentally, slightly more than one-half of all private long-term American investments abroad at that date. More important than the total figure itself, however, is the distribution by regions and countries, and by industries.

The high lights of the geographic distribution are that the largest items are for Canada, South America, Europe (including Great Britain), and Cuba and other West Indies, in the order named, each being between one and two billions.

American direct investments in Canada are twice as large as those in any other single country; in this case communication and transportation enterprises come first, although if paper and pulp are included in manufacturing, the latter takes the lead. The classification is difficult because paper and pulp production is intermingled with hydro-electric

4471, Senate Resolution 128, adopted Oct. 5, 1929. "Resolved: That the Secretary of Commerce is hereby directed to investigate the essential facts, as regards both what has happened and the causes, with respect to the investment of American capital abroad, especially in Europe, and particularly by American corporations engaged in manufacturing in the United States. The Secretary of Commerce shall report to the Senate as soon as practicable the results of his investigation, which shall be completed within one year from the date of adoption of this resolution."

[6] U. S. Department of Commerce, *American Direct Investments in Foreign Countries*, by Paul D. Dickens, T. I. B. No. 731, 1930.

[7] It is noteworthy that the industrial bonds, as well as stocks, of American-controlled corporations operating abroad are included. For further notes on the scope, sources, methods of valuation, rules of geographic distribution, rules of industrial distribution, and the refinements and limitations of the survey, the bulletin itself should be consulted.

development. The variety of manufactures is considerable. Mining and smelting are also important. Here one finds well-known localization factors, notably the availability of raw materials, such as pulp wood, not to mention similarity of language and custom. There are also the rather high import duties on some commodities, the restrictions on the export of pulp wood together with the free importation after 1911 of newsprint in the United States, which may have influenced the expansion northward of American paper manufacturing, and the preferentials accorded in some other parts of the Empire to Canadian exports.

Summarizing for South America, and ignoring the diversities of the various countries there, petroleum, smelting and refining, communication and transportation and other utilities are important, although manufacturing is significant too, and the increase in all items in recent years has been more rapid than in other parts of Latin America. It is noteworthy that South America ranks ahead of Europe, since recent superficial evidences have led to a popular supposition that American enterprise is now mainly in Europe or in Europe and Canada.

Of the amount in Europe, as might be expected, nearly one-half is in manufacturing, of which there is the greatest variety, and petroleum and public utilities are important, while exploitation and processing of raw materials are relatively unimportant. It is a striking fact that over one-third of these European enterprise-investments are in Great Britain, largely in manufacturing. Germany, France, Italy, and other countries come considerably below. Familiar factors in the localization of manufacturing industry and of utilities are found in the European category; familiarity with language and custom (especially in Great Britain), coal supply, trained labor, and large and accessible markets, are among the principal ones, and American technique in industrial science and in business organization are very prominent. There are also the industrial and commercial policies. An example of the former is the fact that the patent laws of most European countries contain compulsory working clauses; the American holding such a patent thus finds it necessary to put it into use in manufacturing in the European country in order not to forfeit its use. Examples of the latter are found in rates often high upon imports of manufactures, import quota systems, as in the case of the automotive industry, and the tariff preferentials enjoyed when manufactures are exported from the United Kingdom to certain other parts of the British Empire, notably the Dominions.

In Cuba and other West Indies, sugar and other plantations are most important, followed by communication and transport enterprises. In Mexico, the leading items are mining and smelting, and, secondly, the frequently overestimated petroleum investments; communication and transportation are also important.

Mining predominates in Africa, and the investments in Asia are relatively small. In general, it may be observed that the inflow of American enterprise into Latin America, Africa, and Asia has been induced, not so much by commercial policies, but rather by the presence of unexploited raw materials, many of them needed by American manufacturers at home, and by the opportunities presented by newly developing areas, in the way of transportation and communication and other utilities. These cases, then, like those in other parts of the world, to a considerable extent are what might be expected in view of the respective national economies involved.

Turning to the distribution of American direct investments abroad by type of industry, one finds that they vary greatly according to the character of the national economy of the country in which they are made, as has been noted above, and that manufacturing is only one of several highly important categories.

An idea of relative importance of types may be gained by noting that of the total value of $7,478,000,000, manufacturing accounts for $1,534,000,000, but that this is exceeded by public utilities, including transport and communication, with more than $1,625,000,000, and that other proportions include petroleum (largely crude) with $1,115,000,000, mining and smelting with approximately $1,200,000,000, and agriculture with $875,000,000. Here, therefore, one sees the danger of assuming, as has sometimes been done, that the movement is chiefly one of manufacturing. Indeed, the total spread is much more nearly even than may have been commonly supposed.

The figures also show that, contrary to popular impression, branch factories and assembling plants are much less important than subsidiaries in the manufacturing expansion. Of the manufacturing total of 1,236 establishments, with a value of $1,534,000, there are 848 subsidiaries with a value of $1,144,000; the subsidiary is clearly the favorite organization form. This is significant. The subsidiary, often going under a local name, not only escapes the economico-sentimental opposition sometimes encountered by a concern known to be foreign, but it shares the advantages of native concerns under the industrial laws and public policies of the country in which it is located. This suggests that such policies may be, at times, more important influences than commercial policies.

The survey also presents certain data in such a way as to show a time trend; that is, it shows the expansion abroad of the various types of American manufacture in some areas, by years, from 1860. This expansion, into Europe, shows three major movements: (1) from 1898 to 1902; (2) from 1908 to 1915; (3) from 1920 to 1929. Each movement was larger than any preceding one, and the third was, of course, most striking. Declines in expansion rate followed each of the first two,

and in the main, this seems to be indicated for the immediate present, following the 1920-29 increase. The trend in the case of Canada was not entirely dissimilar. In searching for explanations, two influences appear. In the first place it is fairly clear that America's outward movement as a whole has corresponded generally with its gradual advance from the stage of simple national economy to the complex stage or type. This means an increasing diversification of industry and especially an increasing amount of enterprise-capital available for outflow if conditions abroad are such as to attract it. Similarly, there is the type of national economy of the country receiving the enterprise. Since manufacturing expansion has thus far moved largely toward more developed countries, the movement toward Europe in this regard was typical. It is also typical that the expansion in non-manufacturing lines moved heavily toward less developed countries, and that to some extent the manufacturing movement has also set in more recently toward some of the Latin American countries which are becoming relatively more developed. Secondly, there is a considerable correlation between the outward expansion in general and peaks of prosperity. This is shown in a dip caused by the depression of 1920-21. It is particularly true of the latter part of the 1920-29 period, when general business conditions in the country reached a remarkable peak in 1928 and part of 1929 and when the outward expansion of enterprise was correspondingly spectacular.

In the above analysis causes have occasionally been suggested, but have not always been given the detailed consideration possible in many instances because of lack of space. It remains, therefore, to review the movement, and to draw from it certain conclusions regarding the influences affecting it, including the tariff and other policies.

Considering the movement as a whole, the various causes which induce it and make it take varying forms, including many old familiar factors in the location and relocation of industry, may be classified, in part, as follows.

There are, first, the basic geographic and economic conditions, including presence or proximity, or absence, of such things as: (A) environmental requisites (i.e., primarily land elements) such as (1) soil and climate and (2) raw material resources and sources of power (coal, water-power, etc.); (B) population requisites, such as (1) cheap labor supply (although the fact should of course be borne in mind that cheap labor expenses and low labor costs are not the same thing), and (2) skilled labor supply; (C) requisites of capital and entrepreneur capacity (although enterprise capital and the entrepreneur are, of course, not easy to separate sharply); (D) exchange requisites, such as (1) merchandising facilities (e.g., export houses), (2) rail, water, and other shipping facilities, together with distance and weight elements affecting

costs (e.g., high transport costs on heavy machinery shipped from the United States to Europe), and (3) banking facilities (e.g., banks dealing in foreign exchange or having foreign branches); (E) consumer markets, with their relative purchasing powers.

There are, secondly, the stages and types of the national economies involved. Here the oldest and most natural movement is from complex to simple national economies. But the increase in the movement of manufacturing which, correctly or incorrectly, has received most attention in the last several years, has also been caused partly by the flow of enterprise capital to countries of similar national economy with a probably temporary capital depletion. Nor should the natural tendency toward a sort of industrial coalition of the leading manufacturing nations be overlooked.

Thirdly, there are miscellaneous non-economic factors, such as similarity of language, customs, tastes, and national sentiment for national goods.

Fourthly, there are individual and corporate business policies. For example, there is the determination of many processors and manufacturers to control their own supplies of raw materials in other countries. Other important examples include the rationalization movement in Europe, calling upon America for mechanical and organization technique. Plural voting shares for retention of control within the nation would furnish a negative example.

In the fifth place, there are the ebbs and flows of national prosperity. It is striking that the outward movement of industry from the United States has tended to expand most rapidly at some of the so-called prosperity peaks; that is, when at least corporate profits, the securities market, and internal industrial expansion were at their highest points.

Finally, there are laws and public policies affecting the international movement of industry. These may be divided into two categories: those concerning industry directly, and those operating upon trade, and to some extent upon shipping and finance, but through these affecting industry, and often having industrial effect or even intent. The former may be grouped under the term *industrial policies*, and of the latter those ordinarily referred to as *commercial policies* are most important in the phenomena here considered. Further, of these commercial policies, tariffs assume particular significance.

The industrial policies proper have been given comparatively little attention until very recent years, probably partly because in many instances they are not formulated with particular reference to foreign enterprise as such; but sometimes they are, and in any event there are certainly many economico-legal provisions which a concern encounters when it undertakes operations, not with but in, a foreign country. The

status of such enterprise includes matters of incorporation, registry, combination, taxation, "industrial property rights" such as patents, and, especially in outlying countries, leases and concessions. These are questions too large fully to explore here, but such laws and policies must be taken into account very definitely and considerably in any analysis of the international migration of industry. To mention but three examples, it is probable that far too little attention has been given to those cases where a manufacturing industry has moved or extended partly in order to comply with compulsory working clauses in its foreign patents, or because of patent ownership, or partly, if not largely, to escape international multiple taxation. Liberality or otherwise in granting concessions and leases, particularly with respect to natural resources in outlying countries, but also with respect to manufacturing in countries of the other type as in the Swedish match case in Europe, may also be included here. These factors, like the non-legal and non-policy factors, are known to operate in important phases of the movement outlined above.

Turning to commercial policies, with special reference to the tariff, there are a good many ways in which the movement is affected, as will be indicated below, and an examination of given instances as well as of the whole movement indicates the presence of this influence. However, just as international commercial relations are probably still given a more nearly exclusive place in the study of international economic relations than they merit, and just as the international movement of manufacturing has recently been overemphasized at the expense of the movements of other industry, so it also appears that commercial policy may have been given undue weight in the present problem. Certainly the popular notion that American industry, even if this be confined, as it should not, to manufacturing, has recently fled to Canada and Europe solely because of high tariffs there, is exaggerated.

The exact place of the tariff in the movement is difficult to appraise. A comprehensive tracing of tariff rate changes on the product of each migrating industry has never been undertaken by any government or research organization, and conclusive proof would in any event have to be sought in the decision of each concern. A general approach may be sought in recent computations of import tariff levels of leading countries,[8] on the basis of average ad valorem equivalents of duties collected in forty countries, calculated on the value of total imports for 1913, 1925, 1928, and 1929. The results are rather surprising. A few examples may be mentioned. The level for Germany was only a very small fraction higher in 1928 than in 1913 (8.50 per cent *vs.* 8.20 per

[8] League of Nations, Economic and Financial Section, *Tariff Level Indices*, 1927, C. E. I. 37, p. 21; and unpublished materials compiled by the U. S. Tariff Commission.

cent). The French level in 1929 was less than in 1913 (6.93 per cent vs. 8.81 per cent). In both cases the level had been even much lower in 1925. The level in the United Kingdom increased, but this was probably mainly due to high rates on a limited number of commodities under the Safeguarding of Industries Act. The Canadian level declined. Levels elsewhere varied somewhat, sometimes being higher, sometimes lower, for 1928 or 1929 than for 1913, but they give little indication of a spectacular or even consistent post-war-decade increase. There is danger of fallacy in these indices, since they cannot show the prohibitive effects of some duties. But if they possess any validity whatever, they do not support the supposition that American manufacturing industry migrated or "fled" to Canada and Europe during the decade 1920-29 solely or almost solely to seek tariff cover; other influences, some of them more basic, have been observed above. Moreover, the movement of many other industries and toward many other countries could have been affected little if any by import tariffs in the countries of ingress.

The above analysis has been made largely from the viewpoint of the movement from the United States outward. It would be unscientific to generalize too much from such data, but many of the points derived appear to fit other cases, such as the extensions from European to outlying, or even among European countries. Again in the case of the United States the inflow of European capital into its industries in earlier periods was largely one of pure investment, and in certain important and recent cases of direct type (such as those of petroleum, soap, thread, and rayon), raw materials, markets, and patent ownership have been among the most important influences, despite the high tariffs here.

Nevertheless, the above observations do not by any means eliminate the tariff from the present problem; they tend to show that it has probably been given an emphasis beyond its importance, even in the cases of manufacturing migrations in recent years. It is to be noted that the tariff operates in this and also in other and more indirect ways. Some of the latter as well as the former movements thus influenced, therefore, may be indicated as follows:

(1) Movements to get over, or rather under an import tariff wall, as well as to get inside other import restrictions such as quotas of automotive imports. In fact if there is a single recent case where the tariff has been most clearly a factor, it might be said to be that of automotive migration into Europe. (2) Movements to get inside preferential or tariff-bargaining, or especially favorable most-favored-nation areas, as in the case of manufacturers going into England to export to Dominions giving Empire import preferences, or going into a European country to export to European neighbors giving that country either especially

low tariff rates as a result of maximum and minimum or general and conventional schedules or low tariff rates thus arising which have been generalized through a conditional or unconditional most-favored-nation clause. (3) Movements to get inside export restrictions, such as Canadian restrictions upon certain raw materials. (4) Movements partly dictated by non-restriction factors, but probably influenced by the absence of import duties, as in the setting up of subsidiaries or branches abroad partly to export products back home duty free. The Ford tractor case, with production in Ireland, is frequently mentioned as an example of this.

On the other hand, export duties on raw materials may tend to check the ingress of foreign raw-material-producing enterprise rather than to stimulate it, and such export duties are not infrequently found in just the countries into which foreign enterprise migrates for the purpose of exploiting such materials. Tariffs may be partly effects rather than causes. Although this is difficult to measure, the post-war international extensions and affiliations of enterprise are thought to have had an ameliorating effect upon the severity of tariff restrictions at least among European countries, in both general and particular ways.

Thus a variety of factors influencing international industrial migration is apparent. They include commercial policies, probably less than may be ordinarily supposed, and also what may be termed industrial policies, which hitherto do not seem to have been sufficiently emphasized. But basic conditions often govern, probably even in many instances where government policies also play a part.

International industrial migration is scarcely to be called a "flight," even though it may have its periods of contraction and expansion, but is rather a gradual movement which set in long ago, and which takes on various rapidities and directions in different times and places. It illustrates, it is true, partly the effect of national measures upon foreign economic processes, and perhaps also the influence of such processes upon national policies. But everything considered, it may point even more to the limited effectiveness of nationalistic restrictions, and to an inevitable tendency toward, not simply an international commercial, but also a world industrial, order.

INTERNATIONAL ECONOMIC RELATIONS—DISCUSSION

Lynn Ramsay Edminster.—The two interesting papers that have just been read both serve to emphasize the economic interdependence of the modern world. Trite as this fact may be—to use Professor Patterson's expression—it happens none the less to be of supreme importance. So long as we continue to live in a world in which our political machinery lags far behind world economic evolution—is geared backward, as it were, to the old fiction of national economic rivalry instead of forward to the fact of world interdependence—nobody need apologize for stressing either the fact or the implications of that interdependence. There will be plenty of time for apology after there has been some indication that its implications have been adequately reflected in the economic policies of nations. Trite, therefore, as the idea may be among economists, I am afraid that, like the poor, it will be with us for a good while to come.

In showing the need of stressing less the national, and more the world, point of view in our modern economics, Professor Patterson is, of course, right. One feels, to be sure, that the distinction which he attempts to draw between international and world economics, the one stressing rivalry and the other community of economic interest among nations, rests on a somewhat limited use of the word "international." But that is a small matter. By whatever name one chooses to call it—international economics, world economics, or just plain economics— few will deny that our present-day economic theory ought to lay more positive stress on the economic interdependence of nations than did our older economics.

Professor Donaldson's paper on international industry has directed our attention to a very important field in which this integration of economic interest is taking place. There has been an enormous growth of so-called "direct investments" abroad by American corporations; that is, investments in industrial plants, public utilities, and other forms of enterprise under American control; and this same process of internationalization of business enterprise has been in progress in other countries. Concerning both the extent and the causes of this migration of industry, Professor Donaldson's paper is very illuminating.

There is one point, however, with which I do not find myself in agreement. I feel that in his anxiety to stress the importance of what he calls industrial, as distinguished from commercial, policies as causes of this so-called "migration" of industry, Professor Donaldson has unduly minimized the effect of commercial policies. Particularly is this true if we consider manufactures. Take, for example, Canada. If we take into account not only her high tariff, with its preferential features and its anti-dumping regulations, but also other provisions of her commercial policy designed to promote domestic manufactures, such as her export restrictions on pulpwood, I think we may say that in the aggregate these restrictions have given a very marked impetus to the extension of American manufacturing industries into Canada. Of course when one includes other types of industry such as public utilities and the mining and petroleum industries, protectionist devices like the tariff do not

loom so large as causal factors. But, in respect to manufacturing, I am inclined to think they are very important causes of industrial migration.

In any case, it is untenable, in estimating their significance, to maintain, as Professor Donaldson does, that import trade barriers are no higher today than they were before the War. The figures which Professor Donaldson cites in this connection, taken from the League of Nations pamphlet on *Tariff Level Indices,* are not reliable evidence. They are taken from an appendix to which they were relegated precisely because they were deemed the least satisfactory among the various methods of measurement of tariff levels considered in that study. The fact is that import barriers—and these, of course, include not only tariffs but other restrictions as well—are distinctly higher than they were before the War, as anyone can readily ascertain by inquiring from sources such as the Tariff Division of the Department of Commerce, whose business it is to keep intimately in touch with such matters. Moreover, the present trend seems to be upward rather than downward.

Professor Donaldson's paper is concerned only with the extent and causes of the migration of industry. One wishes that there had been time for him to indicate also something of its significance. What is its meaning in relation to the world economy which Professor Patterson has pictured to us? Will this migration, or foreign extension, of industry tend to increase or diminish world economic interdependence and in what way? What is its significance in relation to the future of world prosperity and world peace?

Time does not permit adequate discussion of these matters, but one or two points may be noted. In so far as the process of migration has been due to nationalistic restrictions designed to curtail imports and to stimulate domestic production, it does not make for increasing interdependence. On the contrary, it is a concession to, a compromise with, the policy of economic nationalism. In its proximate results, it presumably means less, not more, international trade; though of course payments of interest and dividends on such investments cannot be ignored in this connection. In a larger view, however, I think no one will deny that the process signifies, if not increased interdependence in terms of trade, certainly a trend toward unification of world economic interest. No matter what the causes of migration, this should be the logical tendency of its results. It should definitely make for greater breadth of view on the part of the leaders of industries whose scope has widened out beyond national boundaries. It should lead to a distinctly greater appreciation of the international significance of national economic measures on the part of powerful business interests. Their economic horizon having widened, their interest in every development, in whatever quarter of the globe, that threatens to disturb world prosperity and world peace will have been correspondingly increased. In short, the same considerations that have for years given the United Kingdom a peculiarly vital interest in world economic and political stability should come increasingly into play in other countries, and particularly in the United States.

As illustrating further the process of integration of world economic interest with which both leading papers have been concerned, I should like to point to what has been taking place in respect to raw materials—the particular field

to which I have given most attention for several years. There has been, as all of you know, an increasing tendency on the part of governments of various countries to establish or give support to controls over exports of raw materials or foodstuffs, particularly those materials in the production of which they possess at least some of the elements of a monopolistic position. Nitrate, camphor, potash, coffee, tea, rubber, mercury, and pulpwood are but a few of the illustrations in this field. By those who have been inclined to minimize the importance of these controls much has been made of the fact that some of them have been broken down and others distinctly checked by the development of competition from outside sources—competition from the identical product or some form of substitute. What is not so generally appreciated is that as such competition develops there is a tendency to counteract its effects by resort to international agreements which greatly widen the possible scope of control measures. In nitrate, potash, mercury, and a number of other cases such agreements have been made. Added to these are the purely private combinations of producers such as that in the copper industry and that which is now under active negotiation in respect to sugar.

There is, in short, a distinct trend toward international combination of vast producing groups whose activities can no longer be adequately coped with by national governments. If the good which may come from such combination in the way of stabilization of world industry is not to be lost through monopolistic and extortionate price boosting at the expense of consumers the world over, and if international friction is to be avoided, some kind of international machinery for dealing with the whole problem must accordingly be devised. Time does not permit discussion of the specific suggestions in this connection which I have had occasion to elaborate elsewhere in book form. I simply mention the point as an illustration of one of the ways in which world economic evolution is breaking over national boundaries and creating problems whose scope lies beyond the reach of national governments.

In my judgment the greatest hope for constructive progress in dealing with international economic problems lies in the activities of the Economic Section of the League of Nations, and I cannot close without calling attention to the significance of its work. Here is a body whose very existence is predicated on the fact that there is a large and increasing number of economic issues and problems that are essentially international in character and therefore beyond the reach of the old concept of national sovereignty. Not only is the League a clearing house, as it were, in which the various national points of view with regard to economic issues are brought together and an effort made to discover underlying principles that will reconcile the differences in view, but it is much more. Its statistical and economic surveys and publications are a veritable laboratory for the development of the newer world economics of which Professor Patterson has spoken. On a scale that has never before been possible, there is being made available to students of economic theory and economic problems a body of data that is world-wide in scope and is assembled from a world point of view, much of it information that could not be procured directly by one country from another. In the work that this body is

doing, more than in that of any other agency, lies the hope that the existence of a highly interdependent economic world will eventually be reflected much more fully in the economic policies of nations than has thus far been the case.

JAMES HARVEY ROGERS.—Professor Patterson has aptly pointed out the desirability of a broader attack on many economic problems. Some economic problems are world-wide in scope and they should be so treated. With his position thus stated I can find no possible disagreement. In fact, Professor Patterson has shown very clearly that many of our most important problems have been handled heretofore on an almost purely national, and therefore much too narrow, basis. I venture to hope that his emphasis of this condition will lead to a much broader view of such things in our all too provincial America.

At times, however, Professor Patterson seems almost to confuse scientific analysis itself with the uses to which the results of the analysis are to be put. At one or two places in his argument, one might even think that nationalism versus internationalism was the subject of discussion. As I see it, some problems are purely local in scope; others are national and still others international in scope. Scientific analysis calls for appropriate treatment of each.

For investigation purposes, the uses to be made of the results are incidental. International attacks may yield results chiefly valuable for nationalistic purposes—and they will be so used if nationalism continues to grow.

Scientific problems are independent of national lines as well as of the uses to which the solutions are to be put. The breadth of the attack depends upon the character of the problem and upon the available data and technique of investigation and upon nothing else. The introduction of ethical and other considerations into scientific analysis is almost sure to distort the results.

Many problems are already attacked internationally. Professor Patterson's examples are excellent ones. Certainly few problems are as much in need of broader attacks as those of central banks and of gold. It is to be hoped too that the world-wide attacks on these problems will show that, as in our profit organization of economy, the good of the group will in general be promoted by each of its members seeking its own welfare. But unfortunately this cannot be assumed in advance. It is the part of scientific economics to find logical-experimental solutions. Those in authority will use these solutions as they see fit.

Professor Donaldson is to be congratulated on the comprehensiveness of his analysis of the migration of American industry. Certainly this important and growing movement is affected by many and complex influences. Whether it is most largely to be explained on the basis of the general internationalization of industry which seems to be going on in all parts of the civilized world or on one or more of the special influences so carefully outlined by Professor Donaldson, I think no one can at present say.

One far-reaching influence, however, I think Professor Donaldson has neglected to discuss; and, since it seems to me an influence destined to grow in importance in the years to come, I shall use the remaining few minutes of my time to give it brief consideration.

Not only have the tariff walls in various parts of the world led many of our industries to get behind these walls to produce and sell their wares, but our own tariff walls combined with the extremely large and persistent payments from outsiders to people within the United States are beginning to have a similar effect. The general explanation of this growing influence is not difficult. Some of the details, I have discussed elsewhere. Here, I must content myself with the general treatment.

The government of Great Britain is paying to the United States government approximately half a million dollars a day. Other European countries, on inter-government debt account, are paying much smaller but increasing sums. In addition, the service on the vast holdings of foreign investments by the American public amounts to approximately a billion dollars a year and is increasing rapidly. These huge inward payments, while in recent years largely counteracted by other credit items in our balance of international payments, are making for ever more persistent inward payments when outward credits are for any reason disturbed. The normal, though sluggish, effect of such persistent inward payments is generally an increase, relative to exports, of imports, visible or invisible. Such a normal adjustment however has been greatly interfered with by our high and recently-raised tariff rates.

The incentive to the migration of American industry growing out of these two influences combined is in my opinion important and destined to grow.

Very generally and as an example only:

1. Great Britain is paying huge sums to the United States.

2. Gold and a number of raw materials we receive without penalty of a tariff.

3. Most manufactured articles we will receive only with a heavy customs penalty.

4. In Great Britain, therefore, articles which we will receive without penalty must draw an increasing premium over other articles which we will receive only with heavy penalty.

5. Among the freely received articles gold is the most important. Other duty-free raw materials we will take in limited quantities only.

6. Hence, in proportion to the magnitude and the persistence of the outward payments, gold must draw a premium over other articles.

7. In other words, the British price level must separate downward from ours.

8. The fact that the large and persistent payments must be made by the sale of British wares in any part of the world where gold or dollar exchange can be had only tends to make this influence world-wide in scope. The inflow of commodities and the outflow of gold will tend to make other price levels also separate downward from our own.

Hence my conclusion: Since our high tariffs combined with large and persistent inward payments is causing other price levels to diverge downward from our own, it is becoming increasingly advantageous for our industries, by migration, to seek in foreign countries the more rapidly falling costs. This they are doing.

Paul Haensel.—The question of world economics and of international economic relations is so wide that we can debate on this subject for weeks and months. Therefore having only a few minutes at my disposal I prefer to make only a few remarks on the two very valuable, interesting, and inspiring papers presented.

I think we should not oppose too much world economics to national economics. In the long run, the prosperity of a nation means always the prosperity of the world. Of course, there may be isolated cases when one nation gets some advantage over another nation. But exactly the same situation may happen in the economics of a nation when one class or group may gain at the expense of another class or group. Still we would be at a loss to call such a situation economic progress or prosperity. America did not gain from the destruction of European economics during the Great War. On the contrary, America would have been much more prosperous now if the War had not taken place. Canada is not becoming more prosperous by smuggling liquor, etc. In the long run, all such artificial conditions and devices create complications and hamper future prosperity.

However, world economics and rational development of an improved international commercial and world industrial order may be impeded and undermined by some injurious measures of the governments of individual nations.

In this respect we should not minimize in present conditions the tariff policy and all the dangers of possible abuses in this direction. Even if we take for granted that the tariff policy in the past has not been the chief obstacle for rationalizing world economics and has not influenced sharply the migration of industries, nevertheless the tariff policy of the individual nations is a very important factor in the development of world economics and above all it is a very important menace to the rational organization of world economic order. At any rate, the danger of quite unexpected and arbitrary changes in the tariff policy of individual nations is so great that it hampers all rationalization of world economics and makes all future plans and every forecast illusory and uncertain. We have to begin with the tariff question in all international economic measures or all our endeavors, as for instance in the gold policy, may become futile or problematic.

Therefore, it was perfectly right that the League of Nations devoted special attention to the problem of custom tariffs. However, the efforts of the League were not very successful. Only a few countries adopted the plan not to raise tariffs in the future.

The failure of the League of Nations in this respect is due chiefly to the desire to convince the governments of the whole world to reduce or at least to stabilize custom tariff. It was an idealistic hope, but unfortunately idealism does not always count for much in international relations. If a few nations start a policy of retaliation, the whole world will very soon feel the futility of introducing an excessive tariff and world economics will get a much sounder foundation. Retaliation in matters of tariff policy does not mean war. On the contrary, it is a plea for fair trade. Every government will know that an excessive tariff or an increase of tariffs above a certain maximum

will invariably be followed by similar action by other nations and that the discrimination of this kind is inevitable. Such an action will stimulate the cartel movement and international agreements among the chief industrial concerns of the world and also rationalize the economic order. On the other hand, this fight for fair trade will eradicate to a great extent many dangerous forms of dumping. The retaliation principle was the keystone of the Brussels sugar convention of the year 1902. Every nation having a tariff on sugar above a certain maximum was the subject of retaliation and punished by a special countervailing duty even in the absence of official bounties.

In spite of some doubts raised by Professor Viner with reference to the Brussels convention, its chief principle is sound and necessary. Every country may introduce a high tariff but it must know the consequences; namely, retaliation by other countries. Even if a tariff war may result, it cannot last long: *brevis inimitia, semper amicitia,* as the Latin proverb says.

On the other hand, there is another menace to the rationalization of world economic order. I mean the Soviet Russian policy of foreign trade. Everybody knows that Soviet Russia is now dumping large quantities of goods into foreign countries at a loss, in spite of the fact that these commodities are badly wanted on her own market. Russia is comparatively very poor in coal but nevertheless some two million tons have been dumped last year abroad and considerable quantities have been diverted to the United States, the richest country in coal in the world. Cement is badly wanted in Russia but nevertheless she exports cement even to Argentina. Foodcards exist for every kind of food in all Russian cities but nevertheless Russia is dumping enormous quantities of cereals and other foodstuffs abroad. There is an abominable shortage of textiles in Russia but nevertheless she exports large quantities of textiles abroad. Matches, salt, sugar, and many other commodities are exported from Russia, even as far as to the United States, Canada, and South America, in spite of the fact that there is a great shortage in all these goods in Russia.

This is not simply ordinary dumping. It is quite a new and peculiar phenomenon in world economics. It is some sort of a political dumping or, as I should say, a "pernicious export" from the standpoint of world economics. The inner market of Russia is deprived artificially and goods which are badly wanted there are dumped into foreign countries which suffer from their own overproduction. Such a policy dictated by purely political considerations of the Soviet rulers tends to increase the disequilibrium of the world's demand and supply.

Firms selling goods (for instance, tractors and machinery) to the Soviet government no doubt profit by it, but at the same time many other branches of industry and agriculture suffer from Soviet dumping in this country or on international competing markets. In other words, Soviet orders are paid by dumping. Thanks to the Russian monopoly of foreign trade there is no fair trade for the capitalistic world in its relations with Russia.

Such a state of affairs rouses the anger of many European countries and France, Belgium, Hungary, Germany, and many other nations have lately introduced countermeasures against this new and peculiar form of dumping.

However, our knowledge of world economics is not sufficient and we want much larger endowments for investigations in this field. For the improvement of a radio-tube or of a shaving blade millions are spent freely but comparatively very little is given for economic research.

At any rate, the near future of mankind will depend not so much on the progress in our knowledge of science, of physics, or of chemistry, but chiefly on the progress of our knowledge of economics, of political science, and of the psychology of the masses. And this we must bear in mind above all other considerations.

John G. Herndon, Jr.—I am sure that we all feel that Dr. Patterson's paper is at once an inspiration and a challenge to us. It is an inspiration because of the clearness with which he presents his thesis that there is a valid distinction between world economics and international economics; and a challenge to us to see to it that we recognize such a difference in our teaching. I am therefore forced to the conclusion that a course in international economics, when given at one of our universities or colleges, ought theoretically to be a part of the program of its political science department; whereas a course in world economics ought naturally to be given under the auspices of the economics department. Manifestly it is impossible that things so closely related should be treated by two separate groups at the same institution. It means, therefore, that there must be closer relations between these two branches of the social sciences than has in many cases previously existed. Teachers of government must be more familiar with the principles of economics the world over; and teachers of economics cannot be unmindful of the effects of governmental regulations, laws, and policies. The two become one as we approach the philosophical and applied principles of either world economics or international economics. The difference in the significance of these two terms is now seen as important in clarifying our thought on international policies. Hereafter we must recognize that the welfare of particular nations is by no means identical with the prosperity of the world. We must cease to think in terms of national advantage and appropriate the broader viewpoint of matters affecting the peace of the world.

When we turn to a consideration of Dr. Donaldson's paper there are two small matters to which he has alluded, upon which, I think, an enlargement is not inappropriate in this place. He has referred to the distinction between branches of, and corporations subsidiary to, American corporations transacting business abroad and owning property there. He has told us that there is generally an advantage in the organization of a subsidiary company for the reason that it gets its charter from the country where its activities are to be carried on. Under the laws of most European states this is undoubtedly true. The present negotiations between France and the United States, however, looking toward some alleviation of the double tax burden of Americans in France grew out of the fact that France does not make such a distinction in her fiscal system. Instead she takes into account the operations of the parent company as well as of the subsidiary in determining taxes due. In most of the other European countries the subsidiary corporation is a unit which stands on its own feet for the determination of tax liability.

Further on in Dr. Donaldson's paper, he mentions the problem of multiple international taxation. This meeting, however, should be made aware of the steps which the United States and certain other nations have taken toward the reduction of such a burden. In the first place, bilateral agreements for the elimination of double taxation in the special field of shipping should be mentioned, since they are now in effect between some seventeen nations. In addition under the auspices of the League there have been held several meetings of technical experts on double taxation who have been successful in drafting model treaties for the prevention of double taxation in the special field of income taxes. While much therefore remains to be done along this line before the burden of multiple international taxes will cease, a considerable start has already been made toward the relief of the business concerns whose activities have become international or world-wide.

Erich W. Zimmerman.—In view of the brief time allowed for discussion, it seems advisable to confine my comments to only one of the two topics presented. While I have long been interested in problems of plant location and, in particular, their relation to commerce, both interstate and international, I choose to discuss Professor Patterson's highly stimulating paper on world economics.

With Professor Patterson's suggestion to give wider and more conscious attention in this country to the problems of world economics I am in hearty accord. Such increased emphasis would take cognizance of the position of world leadership into which the forces of historical evolution and, in particular, the Great War and its aftermath have thrust this country. I share Professor Patterson's belief in the desirability of "stating economic principles in their larger setting" which improved technics, especially the latest triumphs in the conquest of space, have forced upon us. Such a restatement can only mean the revitalization and enlarged usefulness of economic study. Needless to say, such a restatement should proceed with the utmost caution to avoid the unnecessary loss of priceless values. I, too, wish to see the economist take his stand boldly on the side of the historian and the political scientist in interpreting and, thereby, shaping world affairs. The supplementation of our traditional individualistic approach to economics by more systematic attention to group action and to social motives as well as the inclusion in our analysis of elements lying outside the field of economics, such as ethics, politics, and allied factors, seem most desirable. The social sciences no less than the natural sciences must sacrifice some of their definiteness in order to get closer to truth and reality. Finally, I whole-heartedly subscribe to Professor Patterson's declaration that "there is today no greater need than to find ways of preventing international warfare."

While I am thus in substantial agreement on essential aspects of the topic presented by Professor Patterson, there are other points concerning which I hold a different opinion. It may be quite possible that this difference is only imaginary and that the opportunity for fuller discussion would iron out at least some of the divergencies of view. Yet, under the circumstances, I must take the risk of running against what may prove nothing more than quixotic windmills. If they are, so much the better.

I take up a point of secondary importance first. I refer to a statement made at the very beginning of Professor Patterson's paper, referring to the fact that the world is an economic unit. It seems to me that the idea of world unity must be interpreted with great care, if misunderstandings are to be avoided. It is easy to overlook the fact that the same world holds the U.S.A. and the U.S.S.R.; that it harbors both the machine civilization of the West and the vegetable civilizations of the East. It seems easy to exaggerate the idea of world unity. One wonders whether one would get closer to the truth if a careful distinction were made between the organized section of the world and the large regions which still lie, so to speak, outside of the pale of world economics, and if the organized system were conceived as a hierarchy rather than as a unit—a hierarchy in which Western capital occupies the Holy See and in which the inarticulate masses of farmers, peasants, moujiks, ryots, gauchos, etc., represent the laity.

Similar criticism could be raised against the idea of increasing world interdependence. For, are we not witnessing two conflicting tendencies which partly neutralize each other? The same science that renders possible cheaper and faster transportation and communication and thus ties a bond of mutual interdependence around widely remote regions, also cuts through existing links and makes for greater independence. Scientists, by developing the processes of producing synthetic nitrogen, methanol, camphor, lacquer, rayon, artificial leather, etc., by making hydrogenation possible, very materially reduced the dependence of northwestern Europe and northeastern America on the outlying districts of the earth. Furthermore, the increasing importance of South America and Africa as sources of copper and tin and other essential raw materials can hardly be interpreted to mean growing interdependence of continents, but rather reflects the expanding dominion of Western capital over other continents. Thus, what at first may seem growing interdependence in reality is a one-sided process of waxing influence of the power-machine-science-capital complex over the animal-vegetable-coolie complex. The realization of this development, in turn, calls forth trends of political thought which raise the issue of "rising nationalism versus vested rights" and tend to block economic interdependence even where technical developments might otherwise permit it.

That brings me to the main point of my discussion which deals with the interpretation of world economics as contrasted with international economics. Professor Patterson rightly wants us to cut loose from a narrow-minded, national viewpoint which seeks to promote the prosperity of individual nations "perhaps at the expense of the rest"; he invites us to embrace a new world economics built around the major query: "What makes the world prosperous?" I hesitate to recognize the validity of the distinction drawn between international and world economics and would go even further and question the desirability of substituting a world view for an international outlook.

Why must international economics be shortsighted? Why should it prove impossible to bring the pursuit of national prosperity into full harmony with the effort to promote the welfare of the world? Is it not possible that the vigorous pursuit of national interests throughout the world, tempered with

due regard for world community of interest, is the most effective manner of promoting world prosperity? It seems hardly necessary to impute to the national mentality of today a viewpoint which Adam Smith so thoroughly discredited a century and a half ago when he substituted his doctrine of the mutuality of interests for the mercantilist adage, *Il n'y a aucun profit qu' au dommage d'autrui.* It would seem that we might to better advantage differentiate between narrow-minded, shortsighted international economics and broad-minded, farseeing international economics. One should avoid discrediting the national agency as a vital link in the promotion of world prosperity. In my opinion, for decades to come, the nation will remain the center pillar of the world's political and economic structure. Not only material interests will seek expression through national channels but also the highest yearnings of man will continue to become articulate through national rather than through world aspirations. It would seem unwise, therefore, to cut loose from the firm moorings of national foundations and to launch the frail ship of economic thought on the sea of world forces. The most promising beginnings of a crystallized world consciousness, such as international law, the League of Nations, the World Court, are deep rooted in national institutions.

A sound critique of present national policies as reflected in tariffs, in cartels, in price control schemes, in investment activities, in merchant marine ventures, etc., should yield earlier and richer fruit than the attempt to set up a system of world economics as distinguished from international economics.

Finally, is not the distinction between international and world economics an oversimplification of reality? An accurate description of present-day world economy would have to take into consideration a variety of types of national economies on the basis of size, power, complexity, self-sufficiency, etc.; a distinction between national, imperial, and colonial economies would have to be made; and a new category, the continental economy, may well be added as an intermediary step between national and world economy. The United States is a continental economy coupled with national and political unity. The U.S.S.R. may be viewed as a continental economy with limited political unity. If the dream of an economic Pan-Europe is ever realized, it may take the form of a continental economy which may, to a considerable extent, lack in political unity. It is not altogether impossible that we are entering an era of continental and imperial economy which may be looked upon as ushering in the world economy of the future.

Summing up, I would state that world prosperity seems more attainable if sought through the prosperity of its parts—nations, empires, or continents—properly co-ordinated in harmonious co-operation, rather than by viewing world prosperity as an antithesis to national prosperity. I believe that, for a long time to come, the international approach rather than a national world approach will prove the most effective way to accomplish the major objective—world peace and world prosperity.

THE WORLD-WIDE DEPRESSION OF 1930

By Carl Snyder
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A distinguished English visitor, Sir Charles Addis, speaking in New York last month, referred to the prevailing world depression as "the most serious in over one hundred years." This may be termed a highly informed British view; and I do not doubt that if we were to consider the number of countries involved and were, so to speak, to make up a weighted index of them all, it might well be that Sir Charles Addis' description would be justified.

The difficulty involved is precisely a question of measure and of the areas to be included. A hundred years ago, and even less than this, the international exchange of goods was relatively small, and so, likewise, was the industrial product, even of the principal industrial nations. In considering so long a period we can only take descriptive data such as have been so carefully done by Dr. Willard Thorp in his work on *Business Annals*. But even here, going back over so long a period, we have material for only two nations, the United States and England. That for France and Germany goes back only to the latter half of the last century.

Quantitative data of any extent, even in this country—the "statistically mad United States," as some of our neighbors think of us scarcely run back much more than half a century; that is, into the seventies.

But there is, I think, much to suggest that world-wide and synchronous depressions, back of the dark period of the seventies, scarcely existed. If they did, we know relatively little about them. Even for this country our information as to business depressions antedating our Civil War is meager enough. As I have elsewhere pointed out, the evidence is that one of the earliest of our true industrial depressions, that of the forties, did not coincide with the financial disturbances and panic of 1837; nor did the next severe financial crisis of 1857, usher in a drastic industrial setback as has been invariably the case ever since.

It is interesting further to note that the statistical picture even of the seventies is confused, so that, for example, in no year of that depression did railway traffic, as measured in ton miles, fail to increase—so rapid was the growth of our railway systems at that time.

For this country no adequate measures of general production and trade antedate 1875, and there is, of course, nothing like these measures for other countries until a much later period. And even from this date in this country we are confined to a relatively few basic products, like coal and iron and railway traffic, and returns as to bank clearings in the major cities.

For the period from 1875, three especial measures of production and trade have been undertaken, that by the American Telephone Company, our own Clearings Index of Business, and, more recently, a new measure of basic production and manufacture by Professor Warren Persons. These are from monthly data and are the earliest and most detailed quantitative studies of business depressions, covering a long period, with which I am familiar. It is interesting to find that indexes derived from different types of data should still show a fairly close agreement, and to this I may add also the inevitably rather crude measures of the velocity of bank deposits, from 1875, carried out in my department.

Here then are four different types of measures endeavoring to gauge the intensity of business depressions in this country. If we take as our standard, as three of these indexes do, that amazingly steady line of average or normal growth of industry, what we find is that the drop below this line of normal growth is remarkably similar for each of the major depressions covered in this period. This is strikingly true of Professor Persons' most recent calculations.

Taking, then, these types of measures as our guide and applying them to the present time, we find the latest available month, November, registering the lowest point in the present depression, and that point about the same percentage degree of decline from the estimated normal as in previous industrial crises, as in 1921, in 1907, 1893, 1877, and some intermediate periods like 1884 and 1914.

It is unfortunate that, for the most part, our physical data are so largely confined to basic production, which, decade by decade, become less and less representative of the total trade of the nation. But if we take these measures for precisely what they are, and nothing else, we shall not confuse their showing of a 20 to 30 per cent decline below normal as a true measure of the decline in the total trade of the country, which may not be even one-third as much. As they stand, these indexes confirm for this country at least this much of Sir Charles Addis' estimate, that the present depression is one of the most severe of which we have any definite measure.

In other words, as I expressed it last March, before the fact was as evident as it is today, "it is clear that the business cycle in all its force, unaltered and undiminished, is still with us." This definite fact seems to me of deep significance, as expressing the complete absence up to the present time of any kind of adequate procedure for the control, or even the mitigation of the severity of the business cycle in this country.

But if business cycles mean for us precisely what they have meant since their advent, alike in their severity and the havoc which they wreak, unaltered in any measurable degree, this is unfortunately not true for the rest of the world. I do not think there is any careful student of the

problem who would not agree that this is the most world-wide depression, if not the most severe, of which we have any record, whether in a hundred years or more. Certainly no other has to the same degree involved in a common cataclysm the most distant portions of the earth. Australia, the Argentine and the Malay States have suffered as much or possibly more than Great Britain, or Japan or the United States.

It is an astonishing and sinister portent. As if in ironic contrast to the fantasies of a "new era" of unending prosperity, so widely prevalent but little more than a year ago, must we from this derive the impression that the business cycle, and industrial depressions, so far from undergoing a progressive amelioration, are steadily extending, if not in intensity at least in area and numbers involved? Viewed from this angle most of our so-called international problems sink to a minor place.

If, for example, the United States were now alone among the chief nations of the world to suffer, the repercussions of this might still be extensive, owing to our highly predominating position as a buyer and consumer of raw materials. But if most of the other countries were fairly prosperous this effect would be mitigated. The other nations would buy our goods at these depressed prices, gold would flow in, bank credit would be automatically expanded, and the usual and apparently invariable mechanism of recovery in trade would be set in motion.

In reality we have had exactly the reverse. None of the major European countries, save one, shared the general prosperity of the United States in the last six or eight years. On the contrary, some of them, at least, like Great Britain and Germany, have had a struggle with many adverse factors. And the same is true of other great countries, more distant, like Japan and China. The single exception, appears to have been France, and the peculiar circumstances of her exemption I shall advert to in a moment.

The collapse of the speculative mania in the United States last year, puncturing conditions of overexpansion in some important lines, reacted then upon a world in none too buoyant a condition and in which many countries were directly dependent upon these United States, either through our immense purchases of raw materials or through loans of billions of dollars, for such well-being as they had enjoyed.

But there was one event of far-reaching effect. This was the high money rates prevailing in the United States, in consequence of our speculative madness, and the inevitable attraction to this country of foreign funds to which this gave rise. The concatenation of circumstances was peculiar.

In the immediate post-war period the United States alone of the great nations was able to enjoy the luxury of redundant hoards of gold. Gold came to us in fabulous quantity. We had gained a billion

of dollars in the war, owing to our peculiar strategic position, and another billion and a quarter in the six years after the war had ended. While other countries were struggling to escape from the demoralizing influence of huge paper money circulations, this country was able to indulge in a considerable monetary inflation after 1921, on a gold basis; and there seems little reason to question that then, as always, this was one of the dominating factors that made possible a period of such great, though by no means unexampled, prosperity. It was certainly the strongest factor in the tremendous speculative boom, which in many ways was without example in previous history.

Even before the crisis this boom had attracted wide participation from other countries, leading to an inflow of gold, following a huge, and beneficent, exodus. Largely due to heavy importations by France, this country had in 1927-28 sent abroad an enormous sum of gold, near to six hundred millions. But this had no disastrous effect because of the great redundancy of our existing supply. This enormous loss of gold was not, as in most previous periods of the country's history, a menace but, on the contrary, an unquestioned gain, for it enabled Great Britain, France, Germany, and other countries to return to or sustain their gold currencies, and thereby to expand their production and consumption. The exodus was a mark not of weakness but of strength.

But when, in consequence of the lure of rising share prices and our rising interest rates, we began again to draw gold heavily from other countries which could ill afford to lose it, there was the beginning of disturbance. When finally interest rates rose here to extreme figures, this cut off foreign loans in this country and, on the other hand, forced almost all the central banks of the world likewise to raise their discount rates to figures prohibitive to free borrowings by merchants. The result was a severe crimp in credit in almost every nation all around the world; again, save one. And this came precisely at a time when in this country the usual effect of rising interest rates upon business and bank credit had begun to be felt.

At the same time, France was continuing her heavy imports of gold; and this with the concurrent takings of the United States not only absorbed all of the available new monetary gold but brought a severe reduction in the gold stocks of other countries. In the twenty-three months from the beginning of 1929, while the United States absorbed over four hundred millions, France gained nearly eight hundred millions more. There was a considerable gain for Belgium as well. This meant a total absorption of gold of far over a billion of dollars. In the same period sixteen other leading nations lost nearly six hundred millions. Slight wonder that all these other gold standard countries had to resort to high discount rates to protect what gold they had left.

As a result of this peculiar and untimely conjuncture the United States and France have not much below three-fifths of the world's visible stock of monetary gold. This amazing gain by these two countries must have been one of the forces to give to the present depression its singular and unexampled universality; and likewise to accentuate the most extraordinary fall in commodity prices, aside from the direct aftermath of war, of which apparently we have any record.

It is this fall in prices, that for some countries has been of almost catastrophic severity, which most distinctly marks off the present depression from its predecessors. Twenty-two years ago, we had, in this country a particularly sharp industrial crisis, the last preceding the World War, amounting, on the indexes of basic production, to something like present proportions. But this depression was short lived and the fall in commodity prices was not heavy. It amounted to something like 5 to 7 per cent on our familiar indexes, while the present fall in prices in this country, measured by these same indexes, has been three times as great. In other nations even heavier.

But there is reason for thinking that, as a mirror of prevailing conditions, even this estimate is inadequate. So far as I can discover we never had in this country, save in 1921 and in 1864-65, so violent a fall in basic commodities as now. I have taken a composite of twenty of the world's leading basic commodities—the largest in point of total value of product—and compared their prices with the average prices of 1928 and the first half of 1929. The average decline in these twenty basic commodities to November, the latest available date, had been 30 per cent.

From the 1928-29 average, rubber had lost 63 per cent; copper, 40 per cent; wheat, 37 per cent; cotton, 47 per cent; silk, 52 per cent; tin, 46 per cent; and so on. Save as a post-war price collapse, as in 1921 and 1864, and apparently much the same thing at the end of the Napoleonic wars, it may be doubted if any such drastic fall in the value of the great basic products of the world has ever taken place in more than a century at least. As this fateful shrinkage in the value of these basic products, and manufactures from them, amounts now to tens of billions of dollars, and has correspondingly affected the purchasing power of most of the producing countries around the earth, possibly Sir Charles Addis is justified in describing this as "the most serious depression in over one hundred years."

It may be of interest to make one further observation. It is a popular belief that this almost universal decline was the result of wide-spread "overproduction." Side by side with the decline of prices we have plotted the world production of these same commodities. It is true that in a number of lines there was a quite usual rate of increase in the total

product in the years of 1928 and 1929; true, also, that this had led to some notable increases in stocks on hand. Familiar even to the man in the street are the examples of such commodities as rubber, copper, sugar, coffee, and the like. But in few instances was the rate of production in these two years greater than the rate of increase at other times within the last ten or fifteen years—years in which there had not been, save in 1921, any such violent declines in prices.

Further than this it seemed not easy to discover any direct relationship between the rates of increase of the different basic commodities in 1928-29 and their subsequent individual declines in price. Thus, for example, the world's wheat production in 1929 and 1930 was little above the computed line of long-term growth of wheat production, and markedly below the unusally large and, in fact, record crop of 1928. Nor was the average increase of the last five years anything near to the rapid gain from 1919 to 1923. Yet there was not then, nor in 1928-29, any marked decline in the price of wheat. Yet in December the fall in the price of wheat from the average of 1928-29 has amounted to nearly 40 per cent. And one may find similar instances.

In other words, commodities in which there was no unusual rate of increase have fallen in price as much or even more than some commodities in which the expansion seemed exaggerated. And what was true of wheat in 1928 and in the 1919-23 period has been steadily true of a great number of other commodities at varying times within the last decade, and likewise in former times; viz., either that an unusual or exaggerated rate of production has not resulted in any such violent declines in prices as within the last eighteen months, or, if marked declines took place, they did not seem deeply to affect other commodities nor the tenor of prosperity.

When now we come to consider the broad aggregates of world production, this conclusion is more deeply enforced. For several years the League of Nations has compiled a carefully weighted index of world production of sixty-two important commodities. These are of great variety and represent a very broad sampling. In the five years, from 1923 to 1928, the average rate of increase was 3.5 per cent per annum, compounded; that is, practically the same as we have found for the United States alone, when crops are included. But the computed gain from 1928 to 1929 was less than 3 per cent!

Was this rate of increase excessive? It happens that a British compilation of twenty great basic commodities carries back to 1920, and this shows the same average rate of increase as the League of Nations' computation, whether we take the increase from 1920 or from 1923. It follows, therefore, that if there was overproduction in 1929, this was likewise true of previous years, when no disastrous price decline occurred.

As this is written we have just completed an index of world production of basic commodities running back forty years, to 1890; and this may later be extended. This covers some thirty of the world's chief products.[1] The results are, to my own mind at least, astonishing. The rates of increase shown from 1920, or from 1923, are, of course, substantially identical with the two computations given above. It reveals further that the average rate of increase from 1925 to 1929, inclusive, was under 3 per cent per annum, or less than the average from 1920 to 1925, and still less than from the average of 1919-21 to 1925 (which was about 5 per cent).

If then there was "overproduction" in 1929 or 1928 or 1927, why did not the more rapid growth up to 1925 bring on a world crisis in 1926 or 1927 or 1928? Why at the end of 1929? The world's warehouses and granaries would not store perhaps even five months of the colossal total of the world's basic products. There can never be, anywhere, any huge, or fateful, world-wide accumulation or piling up of goods.

Furthermore, the average rate of growth through the quarter of a century before the War was close to 3 per cent, with relatively little variation save in 1893-94. Where is the wondrous post-war growth of technology and invention, which was "beyond all precedent," if less than a 3 per cent gain in the last five years spells the most severe world-crisis we ever knew?

It is such considerations which cast doubt upon the validity of the popular belief in the effects of overproduction. It would seem that two things are often lost sight of; first, that the evidence of overproduction and of the accumulation of large stocks of commodities and goods almost invariably appears after the economic crisis, and not before. And I am not one who believes that the lack of this evidence is due to the paucity of trustworthy data in this regard.

Secondly, it seems entirely forgotten that constantly, alike in times of prosperity and periods of indifferent financial health, there is always in every line a certain tendency to overproduction. That is to say, producers in every industry are always intent to put forth the utmost quantity that can be sold; and as a result we find, especially for the great basic commodities, wide oscillations in individual prices, at varying times.

What really demands explanation is the phenomenon of the general debacle, when these drastic declines come all together, in a sort of ill-omened unison. It is not what causes the individual catastrophes, but the composite or, as our Continental friends phrase it, the *konjunktur*. And it may be added that here an adequate explanation, if such be forthcoming, will explain precisely this antecedent "overproduction," such as there always is, as well as the subsequent underconsumption.

[1] This new index will be described in another paper, with the index numbers.

THE PRESENT WORLD DEPRESSION: A TENTATIVE DIAGNOSIS

By Josef Schumpeter
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Like every other individual phenomenon, a given depression can only be explained by many factors, the number of which depends on the accuracy desired and, therefore, is indefinitely large. In this sense any explanation pointing to one factor only can have no other meaning than that a given situation is so very much dominated by that factor that we may neglect the others in a first approximation.

Yet there is another sense in which it is permissible to look for *the* cause of depressions in general. The meaning of this becomes obvious if we ask: Assuming a perfect absence of disturbing influences acting from without on the economic system, is there, or is there not, reason to expect that there would still be industrial fluctuations or alternating periods of prosperity and depression? "Influences acting from without" must be interpreted to mean not only occurrences such as earthquakes and wars, but also chance occurrences not subject to economic volition, such as gold discoveries or harvests (so far as these are due to accident) and even such things as changes in tariff policy or banking legislation. Although it is that question which constitutes the basic scientific problem, "the other circumstances" may have much more importance in accounting for what actually happens in any given individual case.

Hence the first thing we have to ask is whether the present world depression can be so accounted for; i.e., whether it can be attributed to a number of unfortunate events which interrupted what otherwise would have been continued prosperity or at least an even flow of economic life. The answer is in the negative. Changes in method of production in the widest sense of the word, such as have occurred in the period following upon the post-war crisis, necessarily create disturbances in the economic organism sufficient to produce a period of adaptation or recession. Disturbances of this kind differ among each other not only in intensity but also according to the time which must elapse before the new things created take their full effect; i.e., in most cases, before the products of the new plans reach the consumer's market. Theoretically we should, therefore, expect an indefinite number of waves to be concurrently in motion and to produce different business situations by their interference with each other. So far the existence of three kinds of waves (the "long waves," then what may be termed the Juglar cycle, and finally the forty-month cycle) seem to be established with greater or less certainty. It is probable that 1930 has at least in its second half fallen into the trough

of such a forty-month cycle, and certain that the whole of the year forms part of the down-grade phase of a Juglar cycle as well as of a "long wave."

The depression which would have been due anyhow, but which might have been brought home to the nations concerned by no more serious symptoms than decreasing rates of increase, has been and still is under the influence of outside factors, some of which have helped to bring it about while others merely intensified it or made adaptation and recovery more difficult. The industrial depression has undoubtedly been intensified, and in its severity is partly due to the agrarian crisis which we observe in nearly all countries. This phenomenon is complex and of different character with different nations. One element in it, especially in the United States, cannot be separated from the industrial depression, because it is really part of it; namely, important changes in methods of agrarian production which have been one of the outstanding features of the last decade. It would not be easy to find so good an example of the manner in which productive innovation bears hard on those who are unable to adopt it. But for various reasons there would be an agrarian depression quite independent in its nature of the industrial depression. This agrarian depression would, furthermore, have been intensified in any case by the fact that in some countries, especially in Germany, protective tariffs have created an uneconomically large extension of the area under cultivation. As far as the agrarian crisis is an independent phenomenon, it must be listed as an "outside factor" which makes things worse than they otherwise would be.

It is easy to exaggerate the influence of monetary policy in contributing to the present situation. Yet it is obvious that if a monetary system exactly equal in all particulars to the pre-war system were reintroduced, prices would have to come down to a level lower than that of 1913. Although we are not confronted with this case, yet we have an approximation to it, and it is impossible to treat the consequences as negligible. Especially in England, depression is undoubtedly partly due to the policy which culminated in the gold standard act, which for various reasons has taken some time to evolve its full effects.

Related to this are the effects of reparation and inter-allied payments. They are a contributory cause of the deflation policy of the countries concerned, and they create a stream of exports which would not otherwise exist. The effect of reparation payments is in this respect equivalent to a rebate offered by Germany on her goods. In absolute quantity this effect may not be very important, but even a small additional supply disorganizes markets already weak.

Similarly the flight of capital from some countries, acting in the same way, makes for more intensive depression. This flight, which we observe

especially in Germany and to a lesser degree in England, is mainly a flight from oppressive taxation and may, therefore, be made to enter under the heading of changes in political structure uncongenial to capitalist activity, or of political disturbances generally.

The depression has not been brought about by the rate of wages, but having been brought about by other factors, is much intensified by this factor. The causes are different in different countries but everywhere wages are higher than is compatible with full employment. This statement does not mean that unemployment in its present extent is due to the rate of wages. But part of it is, as shown by the unusually high figures during the preceding prosperity. Moreover our statement does not mean that the rate of wages is too high in any other sense or that the policy of high wages is a mistaken one. For there may be compensating advantages to it.

The fall in short-time money rates has for various reasons not been followed by a sufficient fall in long-time rates, which fact must delay the emergence of those activities which usually precede general revival. The importance of this element must not, however, be exaggerated. There are wide strata of industry in all countries which in a depression as severe as the present one would not borrow even if credit were offered to them for nothing. It is easier to dampen prosperity by a high rate of interest than to alleviate depression by a low one.

Both level and system of prices have lost some of the elasticity they used to have. All commodities under strict control account for a special class of difficulties both when they fail to adapt themselves and when the control breaks down, as has happened with some of the most important of them. These breakdowns while in some cases due to the depression itself, have in others been independent of it so as to act as additional factors of the situation.

It is believed that these elements of the situation account for 90 per cent of the values of the measureable symptoms. But there are many factors of minor or local importance, which are sometimes unduly stressed and the stressing of which sometimes spells definite economic error, but which it would be wrong to overlook entirely. So breakdowns of stock exchange speculation may intensify a depression or even be the immediate cause of the location of a turning point, although it would be quite wrong to look upon them as a cause. So may the system of installment payments, encouraging as it does the spending of expected income, add to difficulties if a change has occurred. And probably the best authorities in the field would agree that present-day tariff policies, while they may soften in special cases the effects of existing depression, have the tendency to develop strains and untenable positions, and that in this sense they may be counted among the contributory factors of the situation.

Without entering into the problems of remedial policy it may be stated that there is no difficulty in devising on the basis of this diagnosis remedies both for the situation in general and for any particular feature of it. In cases like the one before us economics is not inferior to, say, medicine either in diagnosis or in remedial advice. The difference and the difficulty lies in the fact that our patients will not take what we might be able to prescribe.

THE BUSINESS DEPRESSION OF NINETEEN HUNDRED THIRTY—DISCUSSION

Arthur B. Adams.—I agree with Professor Schumpeter that changes in the methods of production (principally the technological changes in production) since 1922 have brought about sufficient disturbances in the economic organism to produce a business recession. I agree also that other factors (such as the agricultural depression and the inflation of credit) have been contributing causes in working with the main cause to produce the present depression; and I can conceive that still other factors (such as the stock market break), while not causes in the primary sense, have operated greatly to intensify and magnify the 1930 depression. However, I do not agree entirely with him as to just why and how the primary cause (changes in the methods of production) brought about a depression; and in part only do I agree with him as to which were the most important contributing causes.

According to my view, the present depression, resulting in the production of an excess supply of consumers' goods at prevailing prices, was due primarily to a relative shortage of consumers' purchasing power. The fundamental reason for the surplus of goods was that the value of consumers' goods offered on the market increased faster than did consumers' money income. The changes in the methods of production during the period 1922-29 brought about disturbances in the distribution of the national money income, as well as in the volume of physical production, which were sufficient to reduce the power of consumers' current money income to purchase, at prevailing prices, the increasing supply of consumers' goods placed on the market.

During this period there was a great increase in the physical volume of production of goods of all kinds; and, at the same time, there was a considerable decrease in the "factory" cost of production per unit, due principally to the displacement of labor by machinery and to greater mass production. While there was a slight increase in wage rates, the number of wage earners employed decreased, and the amount of money paid out as wages did not keep pace with the increase in the value of products produced. With few notable exceptions the prices of the products produced by industrial enterprises did not decrease in proportion to the decrease in the factory cost of production per unit. This improper adjustment, and the increase in the volume of output, gave much greater profits to business enterprises as a whole, which was the basis for the stock market boom. Lower unit labor cost means that less money was paid to wage earners in proportion to the value of the products produced than was formerly paid to them. Therefore, relative to the annual value of the net product of industry, a larger percentage of the returns was paid to capital and a smaller percentage to labor. As the process continued, the property-owning class was able to command with its current money income a progressively larger percentage of the net product of industry; and the wage-earning class a regressively smaller percentage of the product of industry.

The gain in the relative position of the property-owning class and the loss of the wage-earning class did not adversely affect the equation of the de-

mand for and supply of goods in general for several years. The increase in the demand for goods in general kept pace with the increase in the supply of goods which were placed on the market. During the expansion period, because the larger part of the increase in the income of the property-owning class was used to purchase capital goods rather than consumers' goods, the increase in demand for producers' goods, unquestionably, was greater than the increase in demand for consumers' goods. Still there was no lagging in the demand for the consumers' goods which were offered on the market.

In spite of the relative decrease in the purchasing power of laborers and farmers, the demand for the consumers' goods offered on the market (at prevailing prices) until 1929 was sustained by the following forces: (1) because of the time element in production, the increase in the flow of consumers' goods to the market was much less rapid than the increase in general production; (2) consumers' current purchasing power during the period was considerably augmented by the great growth of installment buying; (3) our large favorable balance of trade, financed largely through the purchase of foreign securities, created a foreign demand for American consumers' goods, which goods were temporarily paid for in part by the savings of the Americans who purchased the foreign securities; (4) the rise in the prices of corporate securities, and the stock market boom, financed partly through increased bank credit, gave a big speculative income to a large group of people who spent part of this inflated income in the purchase of luxury-consumption goods; and (5) during the year 1929 business enterprises withheld part of their finished consumers' goods from the market by accumulating large stocks of goods. By the fall of 1929 all of these artificial supports of the market for consumers' goods were removed, except the accumulation of additional stocks of goods by business enterprises.

If, during the period 1922-29, the prices of fabricated products had been reduced at a slightly greater rate than the rate of decrease in the unit cost of production, the total value of consumers' goods offered on the market would not have increased at a more rapid rate than the flow of consumers' current money income. Under these conditions it would not have been necessary to increase the money wages of laborers. Also, if such a price policy had been followed, agriculture would not have been placed in as disadvantageous a position as it was. Under those circumstances we would not have had the high profits which were the basis of the stock market boom, the inflation of bank credit and other movements which brought on the depression. But the artificial supports for the market were found and the prices of fabricated goods were maintained at a relatively stable level.

During the period of expansion of output, a large part of the increased profits from production were invested in new business enterprises and in the enlargement of old ones. Also considerable additional investment funds which went into expansion were drawn from the increases in bank credit. For a considerable time this increased demand for construction goods and producers' goods of all kinds sustained the market for the growing output of factories and shops. It was during this period that some notable economists were explaining to the world that we had reached a higher permanent

level of prices, profits, and output in this country. Eventually our increased output began to ripen into an ever-increasing flow of finished consumers' goods and services. It then became necessary to slow down our pace of expansion of construction of all kinds. The markets for both producers' and consumers' goods became heavy, and business enterprises began to cut down their operations. Unemployment increased, this time not because of technological improvements, but because of the reduction in operations. Early in 1929 it became evident that profits of American business corporations would not continue to increase. It later became evident that the profits of these enterprises would not justify the inflated prices of their securities on the stock exchange. The Federal Reserve Board began to oppose further use of bank credit to support the inflated prices of securities. The stock market tumbled, and business started on its long slide downward.

The use of bank credit intensified and accelerated the recent economic changes, as Mr. Snyder points out. Bank credit furnished part of the purchasing power for the goods produced. The earlier increase in bank credit made possible the large purchase of foreign securities, and thus helped to sustain our huge favorable balance of trade. The expansion of bank credit furnished a part of the purchasing power for the inflation of securities on the stock market, and thus supplied part of the income used for purchasing consumers' goods. The interest rates rose as a result of the expansion of credit, and large quantities of foreign gold were attracted to this country because of the high rates. Mr. Snyder makes the point that the export of gold by foreign countries adversely affected their internal trade conditions. The end of the expansion of bank credit brought about a decrease in the demand for goods. In this sense the inflation of credit was one of the principal causes of our present serious difficulties. However, bank credit would not have been inflated to such a degree as it was if borrowers had not borrowed the money in order to take advantage of what they thought were opportunities for large profits. Prospective profits were the fundamental cause of the credit inflation. However, a public control over the expansion of credit would influence the profit-seeking activities of individuals, and thus would hold down the overproduction of goods in the cyclical sense.

Mr. Snyder calls attention to the fact that the inflation of the stock market decreased America's ability to purchase foreign securities. Certainly the deflation of this market further decreased our ability to do so. The decrease in the purchase of foreign securities brought about a corresponding decrease in the foreign demand for American goods. The fall in our export trade further glutted our domestic market with goods. The decrease in employment and in profits put a definite curb upon further increase in installment buying, thus causing additional goods to pile up in the market. All of this came about at the time the recent industrial progress was ripening into a much larger flow of consumers' goods into the market. Consequently, large stocks of finished goods piled up in the hands of producers and dealers. In spite of the efforts of business enterprises to hold prices up by reduced output, the long and large decline in the general price level has resulted.

The long-standing agricultural depression is, as Professor Schumpeter

states, related to the present business depression. The small purchasing power of the farming population (due to relatively low prices of agricultural products) since 1920 has adversely affected the demand for consumers' goods in the United States. In spite of this fact, however, the low prices of agricultural products were one of the forces upon which our great industrial expansion (1922-29) fed. The relatively low prices of agricultural products gave manufacturers cheaper raw materials and relieved them of stronger pressure for increases in wages of workers. Partly as a result of the relative decrease in the agricultural population, the demand for the increased output of finished manufactured goods was sustained by urban consumers with the aid of installment buying, favorable balance of trade, and speculative money incomes. Since the removal of the artificial supports of the market for manufactured goods, it is evident now that business would be less depressed if the farmers had more purchasing power.

I attach little importance to the reparations and inter-allied debt payments as a cause of our present depression in the United States. We, in this country, developed the forces which produced the depression at a time when the reparations and the inter-allied debt problems were as acute as they are today. I believe that the present world-wide depression was produced in the United States, and in so far as business has continued to become more depressed in the European nations, these nations have been adversely affected by what has developed in this country.

I agree with Professor Schumpeter that both the level and system of prices have lost some of the elasticity they used to have, and that this change has contributed to our present difficulties. The large business enterprises particularly in the fields of mining, manufacturing, and trade, through monopolies, cartels, and trade associations have been able in great measure to hold the prices of their products at stable points in the face of an increasing output. The farmers, on the other hand, partly because of the lack of joint ability to control output and the marketing of their products, have little power to hold up the prices of their products. Producers' control of the prices of one class of products and the lack of control by producers of another class of products have thrown the price system out of adjustment and have caused an unbalanced development of industry. This development has brought about a temporary breakdown in the producers' control of the prices of manufactured goods.

Professor Schumpeter does not contend that the high rate of wages contributed to the bringing about of the depression, but he does believe that the present high rate of wages retards the readjustments necessary for recovery. I believe that if the total amount of money paid out as wages from 1922 to 1929 had increased in proportion to the increase in value of the goods produced during that period, we would have had today only a very mild business depression, or none at all, instead of the very severe one we now have. If such had been the case, profits during the expansion period would have been less, production would not have increased as rapidly as it did, the stock market boom (based on higher profits and fed on bank credit) would not have occurred, and we would not have had much credit inflation.

Installment buying would not have been as great; neither would the balance of foreign trade have been as large; but the home demand for consumers' goods would have been supported by actual money income received rather than by artificial means.

Time will not permit me to discuss the difficulties in the way of recovery from the present depression. However, I must say that I do not agree that the present widespread unemployment situation would be relieved materially by lowering wages. The larger part of the present unemployment is due to the closing down of industry which in turn is due to the excess of goods in the markets.

CARTER GOODRICH.—I am by no means competent to discuss the entire range of questions opened up by these very important papers. I shall therefore confine myself to certain aspects of the position of labor in the depression, and I should like to take as my text Professor Schumpeter's closing metaphor of the economist ready with his remedies and the patient refusing to take them. Part of the economist's prescription for unemployment has commonly been the lowering of wage rates. I note, however, that Professor Schumpeter suggests this in the present situation only with the most careful qualifications; and it may therefore be worthy of further examination. If we think of lower wage rates as the prescription, three questions seem to be in order. Has the patient taken it? If not, why not? And if he did, would he get well any sooner?

On the first point, the answer, as Professor Schumpeter has already indicated, seems clearly to be no. Labor, as always, is suffering, through short time and unemployment, more than its proportional share of the hardship of the depression. The total income received by the working classes has declined very sharply. But this is by no means true of the rates of pay of those who remain at work. Rates of money wages, to be sure, have in many cases fallen; but rates of real wages seem in general either to have held their own or even to have moved upward. It is of course too early to collect anything like complete or conclusive proof of this, but what straws of evidence are available from representative countries sharply affected by the depression seem to point in that direction. The British economists Bellerby and Isles estimate for the United Kingdom a "rise of about 5 per cent in real wages" between September, 1929, and June, 1930—made up from a drop of 6 per cent in the cost of living and a much slighter decline in rates of money wages.[1] In Germany, the metal-workers of Berlin, after a significant test case, are to take next month a cut of 8 per cent, which is somewhat less than the decline in the cost of food to the present time, but only on condition that the government make strenuous efforts to bring about a further cut in living costs.[2] For the other end of the world, Professor Condliffe points out that New Zealand has "so far resisted the temptation" to reduce its award rates of wages in the present emergency.[3] In Australia award rates have fallen with the cost of

[1] J. R. Bellerby and K. S. Isles, "Wages Policy and the Gold Standard in Great Britain," *International Labour Review,* August, 1930, ftn. p. 138.

[2] *The Economist,* November 15, 1930, p. 908; *Monthly Labor Review,* August 1930, p. 267.

[3] J. B. Condliffe, "The Effect of Falling Prices upon Labour Conditions in New

living in the automatic quarterly adjustments provided for by the Commonwealth Court of Arbitration, but even the peculiarly serious crisis there, to which Dr. Snyder has alluded, has not yet brought about any other substantial changes in the terms of the labor contract. For our own country the evidence is again scanty, but seems to point to a somewhat remarkable maintenance of rates of money wages. Union wage rates down to May of this year even showed a slight increase and stood at the highest point in our history.[4] Average weekly earnings of factory employees, as collected by the National Industrial Conference Board, fell some 12 per cent from September, 1929, to September, 1930; but this drop was accompanied by a decline of 13 per cent in the average hours worked and seems therefore to indicate not a fall in rates but the prevalence of short time. The other scattered series, of rates for common labor employed by the Steel Corporation, and on road-building in various parts of the country, and of hourly earnings on the railroads, show either negligible changes or no change at all.[5] Nevertheless there have been a number of wage cuts, open and concealed; indeed, manufacturers reported to the Bureau of Labor Statistics over seven hundred cases for the first ten months of the year.[6] But surely the surprising thing, by contrast with other depressions, has been their relative infrequency. William Green points out that the cuts just referred to were made by only 5 per cent of the total number of manufacturers reporting, whereas in the first ten months of 1921, no less than 82 per cent of those reporting reduced rates of money wages.[7] Yet authorities agree that rates of real wages rose rather than fell during 1921.[8] If even in that year, when the country rang with the shouts of "liquidating labor," rates of money wages were not beaten down as fast as the cost of living, it seems highly probable that the year 1930, when propaganda from the President down has run in such a different direction, will also show an increase rather than a decrease in the rates of real wages. So far, at least, the patient does not seem to have swallowed the prescribed medicine.

If not, why not? Are there any factors in the situation other than the oft-noted lag of wage changes behind other price movements? One answer is suggested by testimony from each of the foreign countries mentioned above. An Australian economist who advocates the reduction of real wage rates refers to the "political obstacles" in the way.[9] A labor government is in power, and it will not and cannot turn to this expedient while any other seems possible. The British writers already quoted declare that a proposal for the reduction of wage rates is "little more than academic; the difficulties confronting its adoption are of such magnitude."[10] They mean of course a strong

Zealand," to be published in the *International Labour Review*. Note also that these award rates had slightly risen in the face of the falling prices of recent years.

[4] Bureau of Labor Statistics, *Monthly Labor Review*, November, 1930, p. 176.

[5] Department of Commerce, *Survey of Current Business*, November, 1930, p. 43; August, 1930, p. 109.

[6] *Monthly Labor Review, passim.*

[7] Interview in *New York Evening Post.*

[8] P. H. Douglas, *Real Wages in the United States*, p. 392; W. C. Mitchell, in *Recent Economic Changes*, II, 885.

[9] D. B. Copland, "The Australian Problem," *Economic Journal*, December, 1930, p. 647.

[10] Bellerby and Isles, *op. cit.*, p. 152.

union movement and a labor government. Professor Condliffe finds in New Zealand's "remarkable freedom from strikes . . . good reasons for hesitation in . . . reducing the wage levels that are responsible for such a happy state."[11] And from Germany, the *Economist's* correspondent gives warning of the danger of an opposite policy. "If," he says, "the Government can point to a heavy decline in the [cost of living] index, their wage policy may possibly succeed, otherwise it will only increase the social tension and probably end in failure."[12] The common element is the fear of organized labor. The two labor governments referred to, the power of the Social Democrats in the Reichstag, the threatening example of the Russian revolution, are all indications that the labor movement is far more formidable than before the war. This, then, is a somewhat new factor which those who set wages can disregard only at their peril.

But what of the United States? Here organized labor offers no such imminent threat. Though union membership is well above pre-war figures, the unions were badly beaten in 1921 and—what is more significant—have failed to grow substantially since. Certainly they have been quiet enough in 1930, though not losing members as rapidly as in other depression years.[13] Why, then, have American employers also seemed more anxious than usual to hold up wage rates? Partly, no doubt, because of uneasy recollections of union strength during the war. Partly, perhaps, because of a realization that a new organizing campaign would find the workers less divided by language and origins than before, and as the reflection of labor's gain by restricted immigration. Very largely, it appears, because of the discovery of personnel management that the good will of employees was worth buying at wages above the short-run competitive level. And possibly also because of the much-advertised belief that in paying high wages employers were at the same time providing themselves with good customers.[14] Motives like these have led to the fairly widespread adoption of deliberate high-wage policies that seem to have been one of the determining factors in holding up American wage rates not only in the boom years, as Professor Copeland argued yesterday,[15] but also during the current depression.

The head of the German Federation of Trade Unions told the International Trade Union Congress last summer that "the fight against the working class [was] apparently being slowed down more and more." "The pressure against wages," he said, "is often being diminished."[16] An extraordinary statement for a labor leader to make in the midst of a world-wide depression, yet one for which confirmation can be found both sides of the water! In other

[11] Condliffe, *op. cit.*

[12] *The Economist*, Nov. 15, 1930, p. 909.

[13] The *Report of the Executive Council* to the American Federation of Labor Convention in October reported an increase in membership of some 27,000 over 1929, but apparently this does not give full weight to the crumbling of the United Mine Workers in the bituminous field.

[14] Note the statement of this influence by J. Jewkes, "The Efficiency of American Manufacturing Industry," *Economic Journal*, December, 1930, pp. 591-2, 594.

[15] In the round table on Economic Theory.

[16] International Labour Office, *Industrial and Labour Information*, July 21, 1930, p. 117.

countries, the power of the labor movement, and in our own, the new wariness of so-called "welfare capitalism," seem to be holding back the wage cuts to be expected on the basis of our ordinary theories. But if these are forces that must be taken account of by business men and statesmen engaged in the practical job of wage determination, it may well be urged that economists also should give them a somewhat greater place in their theoretical formulations.

Our patient, then, will not take—at least not docilely—the prescription of sharply lowered wage rates. But are we certain we want him to? Even if the dose could be forcibly administered, are we sure that it would contribute to his and our recovery? The affirmative answer is very familiar. Let me, nevertheless, suggest certain doubts. Wage cutting would begin as a further reduction of pay rolls and therefore of the purchasing power in the hands of the workers. The hope of course would be that the resulting reduction in costs would permit a more than proportionate increase in employment and therefore in total working class income. But in the very short run, which is vital to the argument, this result is by no means certain. If Professor Schumpeter is right in doubting the quick effectiveness of changes in long-time interest rates, and if there is force in his contention that many businesses in so severe a depression "would not borrow even if credit were offered them for nothing," it seems to me that the same argument would apply *a fortiori* to wage cuts. Certainly there are many employers who would not now hire additional labor if it were offered for next to nothing. Probably the proportion of idle workers who would now accept employment on bargain terms is higher than the proportion of idle funds. The key point in the jam may quite as well be the lag of retail prices behind wholesale as the lag of wages, and the reluctance of sellers to sacrifice the "good will" in expected prices of branded and other commodities may be more significant than the similar reluctance of workers to labor for less than "fair" wages. If we accept the argument that health can be restored only by falling prices all along the line, prices of labor should of course go down. But I see no reason for driving them down faster than the others. On the contrary, if they are harder than others to move, there may be real social gain in the additional stimulus to reduce costs by improving technique instead. This pressure may be quite as salutary in depression as in prosperity; and when a distinguished British economist argues that his country must either reduce wages or improve industrial methods,[17] it may well be suggested that the latter alternative is more likely to be taken if the former is not made too easy. All this on the assumption that the fall in prices must be more general to permit recovery. But if on the other hand, as some authorities hold, there is an advantage in attempting to stabilize prizes rather than to permit extreme fluctuations, such stabilization should certainly apply also to the price of labor. Indeed, if our Chairman is right in arguing that recovery from the last major depression was hastened by the "broad consumers' market" made possible in 1922 by the "stickiness" of wage rates in 1921,[18] here also the case for protecting

[17] A. Loveday, "Britain and World Trade," *The Economist Monthly Supplement*, Oct. 25, 1930, pp. 27-30.

[18] W. C. Mitchell, *Recent Economic Changes*, II, 885. And note restatement of the argument in Jewkes, *op. cit.*, 591-2.

the price of labor seems even stronger than for the prices of the other factors. These I put forward as doubts rather than as certainties; but I do argue that, in considering questions of wage determination, economists must take serious account of such things as the strength of labor movement and the influence of high-wage doctrines; and it is quite possible that they will often find reason for applauding as well as for recognizing the effects of these newer forces.

JOSEPH DEMMERY.—Economic conditions in the Pacific Northwest, including the states of Oregon, Washington, and Idaho, are determined by the activity in lumbering, general manufacturing, agriculture, shipping, fishing, mining, and tourist expenditures.

The value of lumber and lumber products constitutes approximately 25 per cent of the total value of goods produced in this region; general manufacturing, in which we find flour milling, meat packing, and fruit and vegetable canning, items of very considerable importance, accounts for between 30 per cent and 35 per cent; agriculture from 28 per cent to 30 per cent; and mining and fishing 3 per cent each. Income from shipping and from tourist expenditures is equal to about 3 per cent of the total value of goods produced in each instance.

Whereas the production of lumber in the United States has shown a downward trend for the past two or three decades, except from 1921 to 1925, the lumber industry in the Pacific Northwest has increased at a rapid rate, due to the accessibility of extensive virgin forests. Approximately one-half of the original stand of timber has been cut. Colonel W. B. Greeley, Secretary-Manager of the West Coast Lumbermen's Association, estimates that the reserve of timber in this area is sufficient to sustain the present rate of use for probably forty years.

The total lumber produced in Washington and Oregon reached twelve billion feet in 1926, and remained fairly constant for the following three years, through 1929. During the first nine months of 1930, compared with the same period of 1929, production of Douglas Fir (which constitutes 68 per cent of the lumber produced in these states) declined 23 per cent.[1] For the last quarter of the year loss of production will be at a more rapid rate than for the first three-quarters, so that for the entire year 1930, production of Douglas Fir will show a loss of 30 per cent of the production in 1929. Production of pine declined 12 per cent during the first nine months of 1930 in comparison with the same period.[2]

When production of lumber was at its height there was 25 per cent excess capacity of lumber mills. For the past few months the industry has operated at less than 50 per cent of capacity. One of the reasons for this excess capacity is the general property tax that has been applied to timber

[1] Estimate of the West Coast Lumbermen's Association from data received from 308 mills out of a total of 404, which produce 94 per cent of all the lumber produced in the Douglas Fir region of Washington and Oregon.

[2] Estimate of the Western Pine Manufacturers' Association from data received from 65 identical mills, representing 90 per cent of the production in eastern Washington, Idaho, western Montana, and eastern Oregon, exclusive of the Klamath Falls region.

lands, thus unduly stimulating the cutting of timber. A certain amount of relief in the state of Washington may now be expected since the people of that state have recently voted for a classified property amendment to their constitution. Another contributing factor has been the excessive competition brought about by the building in recent years of several mammoth lumber mills.[3] Large investments in mills and timber lands force operations in order to meet interest and bond maturities. Consequently maladjustment has existed in the lumber industry for many years. These difficulties are naturally intensified during the current world-wide depression.

On account of excessive production, prices for lumber were low; some of the mills were forced into bankruptcy and an agitation was started to merge several of the large corporations. This merger, however, was not completed. Curtailment of residential construction, beginning in 1926, has intensified the difficulties. Prices of lumber started to decline from this low level in May, 1929, and fell steadily to October, 1930, a total drop during that period of 30 per cent. Prices were firm in October, due, it is thought, to a public posting of prices by 125 of the mills, with an understanding that a mill agreed to hold to the prices posted by it and at all times to publish price changes.

Inventories of lumber at 115 mills were about 10 per cent greater on November 1, 1930, than they were on about the same date of 1929, although they had been reduced steadily since May, 1930.

Between 80 per cent and 90 per cent of the lumber produced in the Pacific Northwest is sold in the United States and between 10 per cent and 20 per cent is exported. The important domestic markets are California and the Atlantic coast, and the chief foreign markets are Japan and Australasia. Improvement in the lumber business awaits stimulus to the building of homes, the expansion of industry, or the revival of foreign demand. In the meantime, there has recently been organized the National Timber Conservation Board which will endeavor to stabilize the lumber industry.

There are several forms of manufacturing activity closely allied to the lumbering industry, for example, the manufacture of furniture, veneer, insulating board, and pulp and paper. The furniture industry has suffered from the same difficulties as the lumber industry. Rapid expansion in the demand for furniture during the past decade, due to the tremendous increase in residential building, resulted in the expansion of producing capacity well in excess of consumers' demands. Prices consequently dropped and profits disappeared. This condition led to the recent merger of eleven manufacturing furniture companies in the cities of the Pacific Northwest and California.

The other allied industries, however, have shown substantial improvement in recent years. The exports of veneer and plywood have increased nearly 50 per cent since 1925. Insulating board is now made from Douglas Fir chips, which heretofore found their way into the slab burners of the saw mills, and other material formerly wasted.

The pulp and paper industry has had rapid growth. It is estimated that

[3] On Nov. 7, 1930, 127 mills out of the total of 404 producing mills were cutting 81 per cent of the lumber produced in the Douglas Fir region of Washington and Oregon.

the annual value of paper produced in Washington and Oregon is now about $50,000,000 per year. Considerable further growth, due to accessibility of cheap raw materials and increased demand for paper products, is decidedly probable.

The total value of all manufactures in this region in 1927 was $1,100,000,000, of which lumber and lumber products constituted about 40 per cent.[4] Other important manufacturing industries were: flour and other grain mill products, $72,000,000; meat packing and slaughtering, $50,000,000; and canning and preserving, $43,000,000. Certain manufacturing companies have been developed in this area in recent years which have national and international connections, due to the energetic leadership of individuals and the existence of lower manufacturing costs than exist in many eastern industrial centers.

This general manufacturing development has been steady in growth. The reports of the State Department of Labor and Industries in Washington, for example, show a range of industrial pay rolls from $246,000,000 in 1924 to $289,000,000 in 1929 with small increases each successive year. Apart from lumber there has been no rapid increase in manufacturing activity; neither has there been a rapid decrease. The state of Washington reports a loss of only 3.22 per cent in pay roll for the first six months of 1930 compared with the like period of 1929. This very small decrease in pay roll can be explained by the unusually large amounts of private construction work in the state at that time. The last half of the year will undoubtedly show a larger percentage of decline than the first half of the year.

Agriculture is a major economic activity in the Pacific Northwest. Whereas the number of farms for the United States decreased 2 per cent from 1920-30, the number of farms in this region increased about 8 per cent for the same period. The total value of agricultural products in 1929 was about $500,000,000. The important items were wheat and other grains ($150,000,000), hay ($90,000,000), dairy products ($75,000,000), fresh fruit, chiefly apples and pears ($70,000,000), poultry products ($50,000,000), potatoes ($35,000,000), berries ($10,000,000), and vegetables ($7,000,000).

The value of the grain crop is between 25 per cent and 30 per cent smaller in 1930 than in 1929. The apple crop shows 25 per cent to 30 per cent increase in production over 1929 and 25 per cent increase over the five-year average, though prices are down sufficiently so that the total value of the crop is about the same as it was last year. Prices would have slumped considerably more had it not been for a larger European demand for apples due to a crop failure. The growers will make a smaller net income in 1930 than in 1929, due to larger harvesting and marketing costs, but the pickers, packers, and railroads will profit by the larger crop. The potato crop shows about 30 per cent increase over the five-year average, but prices in 1930 were between 50 per cent and 60 per cent less than in 1929.

Since many of the cut-over lands, particularly those located on the Pacific slope with its equable climate and abundant moisture, make excellent pasture throughout the entire year, the trend in the production of dairy products is

[4]Biennial Census of Manufactures, 1927.

decidedly upward. Lower prices prevailing in 1930 have tended to neutralize the effect of this increase in volume of production for the present year.

There is an increase of 20 per cent to 25 per cent in production of poultry products, but reduced prices will result in the total value for 1930 being a little higher than the value in 1929. The reason for this favorable condition is probably due to the aid given the industry by the Washington Co-operative Egg and Poultry Association, which organization is selling $15,000,000 worth of poultry products this year, and secures a substantial premium for its products in eastern markets.

Most agricultural prices have fallen considerably in 1930. On the other hand, this region has had exceptionally large crops. The Department of Agriculture's composite yield indexes by states, as of November 1, 1930, with 1919-28 as a base, show Oregon 115, Washington 96, and Idaho 108. The average for the country is 91. Agricultural income in the Pacific Northwest, consequently, although smaller than in 1929, will not suffer as great a loss as will the country at large.

The mining industry of the region, with a value production in 1927 of approximately $60,000,000, has suffered a severe setback in the past year or two. Owing to the low price of metals mined, production in northern Idaho is only between 70 per cent to 75 per cent of what it was in 1929. Coal mining in the state of Washington, valued at $9,000,000 in 1927, has dwindled drastically due to competition of oil brought by boat from California.

Another important economic factor in the Pacific Northwest is shipping. Many steamship lines ply out of Puget Sound and the Columbia River for Alaska, coastal and intercoastal ports, Europe, the Far East, and the Antipodes. The pay rolls for long-shoring and expenditures for wharfage and for food supplies amount to between $40,000,000 and $50,000,000 per year. This does not include the large expenditures for ship repairs, most of which come under the heading of manufactures.[5]

The value of foreign commerce has fallen considerably during 1930 as compared with 1929, principally because of a change in the routing of silk, which takes it away from ports of this region to California ports for transhipment through the Panama Canal.[6] The reasons for the choice of the all-water route through the Canal are: first, the freight rate by water is one-half that charged by the railroads; and second, the price of raw silk is about one-half what it was in 1929, so that the investment and the interest upon it being greatly reduced, the time factor in transportation is not so important as formerly. The tonnage loss of exports and imports, both domestic and foreign, for the first nine months of 1930 was only 11 per cent.

Fishing is an important industry. The majority of the Alaska pack of canned salmon, the average value of which has been $36,500,000 for the past ten years, comes into the Pacific Northwest. In addition, there is considerable fishing in local waters which increases the total value of the fishing industry

[5] The Government Navy Yard at Bremerton on Puget Sound disbursed $12,000,000 in wages and salaries in 1929.

[6] In 1929, 116,496 bales of silk were shipped through Panama as compared with 31,000 bales in 1928; and for the first 9 months of 1930 there was an increase of 30 per cent in comparison with the same period in 1929.

to approximately $50,000,000 per year. This industry also supports shipbuilding and repair yards, and the manufacture of canning machinery, cans, labels, boxes, cartons, barrels, and kegs.

The fishing season during 1930 has been very unsatisfactory. In 1929 and 1930 there were large packs of salmon and excessive carry-overs. The result is that the total value of the Alaska canned salmon catch in 1930 is probably between 30 per cent and 35 per cent below what it was in 1929 and 20 per cent to 25 per cent below what it was for the ten-year average. Reasons for this condition, in addition to the large production for the past two years, are a weakened export market due to increased production by Russia and Japan,[7] and intensified competition from packaged and frozen fish as well as other domestic fish.[8]

Another general factor which contributes to the economic welfare of the Pacific Northwest is expenditures made by tourists, which approximate $50,000,000 each year. This item probably suffered 10 per cent loss in 1930 compared with 1929. The trend, however, is decidedly upward due to increased use of the automobile and the building of many new scenic roads.

To summarize: the depression during 1930 in the Pacific Northwest is due to maladjustments within certain key industries and the world-wide fall of prices. The lumber and fishing industries are suffering from cutthroat competition and weakened markets, both foreign and domestic. The value of lumber and lumber products for 1930 will probably show a decline of 35 per cent to 45 per cent from the value in 1929. The mining industry has been injured by the decline in metal prices. There is diminution of agricultural income, although this is not as severe as that experienced in other agricultural sections, due to large crops in this region. The value of the grain and potato crops shows substantial losses, but the value of fresh fruits (apples and pears), poultry, and dairy products is approximately the same as it was in 1929. General manufacturing has declined a little; but a few large construction projects throughout the region have helped to bolster the total pay roll.

Bank debits for the first ten months of 1930 show a loss of 12 per cent from 1929 as compared with an average loss of 15 per cent for cities outside of New York City. Car-loadings for the same period are 18 per cent below what they were last year, a somewhat higher loss than the 13 per cent experienced by the United States as a whole. Ship cargoes, however, have suffered only an 11 per cent loss in tonnage. Building permits show a loss of 12 per cent for the same period, whereas national data indicate a 20 per cent loss. Complete data on unemployment are not available for this region. For the first nine months of 1930, however, we find the monthly average percentage of union members unemployed is 21 per cent, compared with a monthly average of 12 per cent during the same period in 1929. But most of the labor in the lumber industry is unskilled and the percentage of unemployment in this

[7] In 1920, 26 per cent of the canned salmon was exported; in 1921, 29 per cent; in 1922, 25 per cent; in 1923, 19 per cent; in 1924, 22 per cent; in 1925, 18 per cent; in 1926, 14 per cent; in 1927, 16 per cent; in 1928, 10 per cent; in 1929, 12 per cent.

[8] From 1922 to 1929 the quantity of packaged and frozen fish increased from 0 to 85,000,000 lbs.

industry is quite large. Colonel W. B. Greeley estimates that forty thousand to fifty thousand mill and logging camp workers (or about 50 per cent) have been out of employment during the last quarter of 1930 as a result of the depression in the lumber industry this year.

The Pacific Northwest did not enjoy the rapid increase in economic activity which was experienced in many sections of the country, but neither has it suffered the subsequent precipitous losses, except in the lumber and fishing industries. Beginning primarily as a two-crop country (namely, lumber and fishing), it has introduced diversification through the stimulation of agriculture, commerce, and manufacturing in general, which naturally has tended to stabilize economic activity.

WILLARD L. THORP.—Professor Schumpeter has suggested that one of the contributing factors in the present situation is the loss of free price behavior. Dr. Snyder, on the other hand, has reported a "most extraordinary fall in commodity prices." Although Professor Schumpeter was probably referring to the earlier attempts made to stabilize the prices of certain nationally controlled raw materials, the generalization still holds true. The two conditions described are existing side by side. It seems clear that the decline of prices has been most marked among raw materials. Manufactured goods have not fallen in the same degree. Furthermore, the business man at present is vigorously resisting any further reduction in prices. By concerted action the steel and copper industries appear to have succeeded in advancing prices in the face of large stocks on hand and idle capacity. Other business men are demanding, as did Mr. Proctor of the Vermont Marble Company at the last meeting of the New England Council, that the antitrust laws be relaxed in order that they may legally and publicly stabilize their industries. This suggestion has been made by so many individuals that it deserves comment. While there are doubtless arguments in its favor, it is an extremely dangerous proposal for three reasons. First, the stabilization which these business men have in mind is not at all clearly defined. Fundamentally, however, it is a stabilization of price. And by stabilization of price they mean resistance to price-cutting. But such stabilization of price is exactly the loss of free price behavior to which Professor Schumpeter has made reference. Such stabilization of price would probably mean in most industries increased fluctuations in production and employment. In fact in those industries in which price has been somewhat stabilized by the dominance of large corporations, as in iron and steel, the fluctuations in production have increased in recent years. It is this price stabilization policy which in large part explains the results of investigations by the National Bureau of Economic Research showing that employment fluctuations are greatest in the case of large concerns. This policy tends to eliminate inventory losses and therefore stabilizes profits somewhat, but it may seriously increase the instability of the worker. The second reason why price stabilization by industries is dangerous is that there is more than a remote possibility of a declining trend in commodity prices for some years to come. If this be true, the manufacturing industries in which such price stabilization would be most effective would be a favored group able to resist this trend and profit thereby. The third reason why

price stabilization through relaxation of the antitrust laws is dangerous is that these laws have other purposes underlying their existence. Any change in the laws should consider more than the mere effect as an aid to profit-seeking manufacturers suffering from price-cutting. The many other implications of such action must not be forgotten. The resulting ills might far exceed the questionable benefits.

But to return to the papers. Professor Schumpeter has presented, in his stimulating way, a diagnosis which he evaluates as accounting for 90 per cent of the measurable symptoms of the present distress. May I summarize briefly. We are certainly in the trough of a long wave, far in the downgrade phase of a Juglar cycle, and probably in the trough of a forty-month cycle. These appear to be caused by interfering business situations arising from business innovations. These rather mild cycles are in this particular instance intensified by the agrarian crisis, protective tariffs, monetary policy, reparations and inter-allied debts, oppressive taxation leading to the flight of capital, high wage rates, the failure of long-time interest rates to fall, and the loss of free price behavior. With this diagnosis before us Professor Schumpeter states that "there is no difficulty in devising remedies." But this makes it seem so simple. Unfortunately most of the intensifying situations are tied up with other problems. They cannot be considered only in terms of the business cycle. And the remedy for the three or more basic cycles is by no means easy to devise unless Professor Schumpeter, and he has declared himself to be most conservative, is prepared to advocate basic changes in our system including a scheme of central control and planning. The comparison is drawn to medicine. This analysis, however, can be compared with but one branch of medicinal science. The discovery of quinine as a medicine for yellow fever was undoubtedly a great contribution, but the elimination of this disease from the globe is much more important. The present depression has brought out many discussions of remedies but few of prevention. There seems to be almost a taboo against suggesting that the only way to eliminate the business cycle may be by definite modification of the present freedom of enterprise. I certainly would not decry the palliative, but I should much prefer preventive medicine.

To me one of the most significant contributions made by Mr. Snyder is his emphasis of the world-wide character of the present depression. That business cycles in recent years have followed an international pattern has been pointed out in other sources. There was a definite world cycle in the nineties, another from 1900 to 1907, another to 1912 or 1913, another to 1918, another to 1920 and now one culminating in 1929. To be sure the business history of all nations does not follow this pattern to any exact degree, but there can be no doubt of the increasing similarity of fluctuations of business conditions among nations. The significance of this is not far to seek. The problem is an international one. The United States is not an isolated nation. We are part of a world economy. Our economic welfare is tied up for better, for worse, for richer, for poorer, in sickness and in health with that of the other nations. Their prosperity helps us; their depression hurts us. In turn we contribute to their prosperity and depression. It is important that

we do not forget this fact in any analysis of the business cycle and in the formulation of public policy.

ALVIN H. HANSEN.—I should like to say at the outset that I agree most heartily with the main points contained in Dr. Snyder's paper. He has taken, I am convinced, the correct position with respect to the question of overproduction. Yet, if one takes the economy of the entire world into consideration, one can, I think, speak of a certain lack of balance, and it is a striking fact that this lack of balance scarcely ever becomes apparent until depression turns the searchlight upon every nook and corner of the industrial system. It is after the event that the disproportionality makes itself evident.

Even more commendable is Dr. Snyder's emphasis upon the present vexed gold situation as a major causal factor. The brief statement by Professor Schumpeter on the monetary situation is also admirable in its clarity.

The gold problem breaks itself up into two parts: (1) the abnormal drain of gold from England, Germany, and other countries into the United States and France; and (2) the question of gold shortage. I agree with Dr. Snyder that, so far as the monetary factor is concerned, it was the maldistribution of the world's gold which chiefly featured in the 1930 depression. But I do not believe we can dismiss altogether the question of gold shortage. Even though there had been no mopping up of gold by these two leading nations, a return to the pre-war gold system, as Professor Schumpeter points out, would have necessitated a fall in prices to a level lower than that of 1913. If this is true, then there is a genuine shortage in the sense that the gold supply is not adequate (on the basis of the kind of monetary systems that modern nations apparently want) to maintain the 1926-28 price level. It is important to bear in mind that the phrase "gold shortage" has no meaning whatever except in terms of a given price level and in terms of a given monetary system. Had it not been for the drain of gold into France and the United States, we should, doubtless, not have suffered the violent price revolution through which the entire world is now passing. We should, probably, instead, have witnessed a more gradual but nevertheless persistent downward trend in prices. With respect to the 1930 depression, however, the immediately important fact was clearly the maldistribution and not the shortage of gold.

Much has been made of the fact that, in the last year, the money market rates have been fabulously low, and how, it is asked, can there be any talk of gold shortage under such circumstances. Those who argue in this fashion should go back and read Alfred Marshall's testimony before the Gold and Silver Commission of 1888. What needs to be forcefully hammered home at this time is the seeming paradox that in periods of gold scarcity discount rates are, over the long-run period, invariably low. The reason, of course, is that such periods are characterized by a preponderance of hard times. The low discount rates at the present moment are the result of the prevailing depression. But let it not be forgotten that in the crisis which ushered in this depression the money markets of England and Germany and indeed of the entire world (outside of France) were strained to the breaking point.

But how, it is asked, would a better distribution of the world's gold or an

increase in gold reserves help matters? Throughout the world business men will not borrow funds, at the moment, at any price. Now it is quite true that until the present maladjustments have been rectified bankers' funds will go begging, at low discount rates. But no business depression, however bad, lasts forever. And when the next period of revival comes there is the gravest danger that unless the gold situation is rectified the next prosperity period will be short-lived. It is not impossible that we might pass quickly into another period of major depression as did the United States following the brief revival of 1895.

In view of the importance of the gold situation for the economic welfare of the entire world it is especially gratifying to have such a straightforward statement and one which shows such clear insight into the problem by a distinguished representative of our leading Federal Reserve Bank.

With Professor Schumpeter's clear and brilliant analysis there is little to disagree, except perhaps in the matter of relative emphasis and possibly with respect to one major omission of which I shall speak later. To understand the severity of the present crisis it is necessary, I think, to stress the significance of the long waves to which Professor Schumpeter alluded. Kondratieff's preliminary investigations suggest that in the last 150 years we have passed through 3 grand cycles, each extending through a period of from 45 to 60 years. The first culminated around 1810-17, the second around 1872, the third around 1914-20. We are now, as Professor Schumpeter says, on the down swing, and it still remains to be seen how long this period will last. These grand waves are apparent not merely in the long-run trend of commodity prices, but also in wage and interest rates, and in the acceleration and slowing down of the rates of increase of bank assets, exports and imports, coal production, pig iron production, and acreage under cultivation. They are also apparent in a general index of production such as that calculated by Mr. Snyder from 1870 on. The grand cycles are a production as well as a price phenomenon.

We know from the investigations of Professor Mitchell and Dr. Thorp that, relative to prosperity, depression lasts in the down swing of the long waves about three to four times as long as they do when the long-run swing is upward. This is a factor which cannot be overlooked in explaining the length and severity of the present depression.

From the analysis of Professor Kondratieff, the thesis suggests itself that the cause of the long-wave movement is the differential rates of increase in technological progress in the production of goods and gold. Thorstein Veblen, who wrote his *Theory of Business Enterprise* against the background of the down swing of the long wave from 1873 to 1896, held the view that under the modern machine industry improvements in technique effect the cost of producing general commodities in a greater degree than the cost of producing the precious metals. The efficiency of modern industry, he thought, is so great that the supply of goods is constantly outrunning the effective supply of gold. Kondratieff, on the other hand, suggests the view that these two rates of technological progress oscillate relative to each other, now one running ahead, and now the other. He suggests further that these unequal

movements are not accidental, that when one has outrun the other, for a period, forces are set in motion which cause the other to take the lead. When technical progress in gold production has run its course for a time the resulting depreciation brings about necessarily a retardation in gold output. This retardation permits technological advance in other lines to take the lead, until after a prolonged period of gold appreciation, a new stimulus is given to accelerated progress in the technique of winning it from the earth. In this manner one phase of the long-wave movement leads into the next. According to Veblen, depression is normal to the machine age; according to Kondratieff, the differential rates of progress oscillate back and forth in grand cycles of approximately half a century in length.

Professor Schumpeter called attention to the agrarian crisis as an external factor contributing to the depression. The agrarian crisis is, however, not unrelated to the down swing of the long wave in which we find ourselves at the present moment. One needs only to recall the analyses of Professors Studensky and W. I. King to indicate the relationship. The revolutions in the technique of agricultural production in the last quarter of the nineteenth century and again in the past decade were contributing causes of lower costs of production and a general fall in prices. Goods were poured out in excess of the absorption capacity of a pecuniary market restricted by the retarded rate of increase of gold production. The revolutionary changes in agricultural technique, while perhaps caused, in the first place, by the down swing of the long cycle, in turn became causal factors, accelerating and intensifying the decline.

In like manner the monetary factor, mentioned by Professor Schumpeter, is not unrelated to the long-wave movement. The rapid appreciation of gold which we have been witnessing, is the first cause of the long cycle down swing. In part it is, as Professor Schumpeter suggests, a reversal of the violent depreciation of gold caused by the monetary upheaval of the war. In part it is a result of the retardation of gold production following upon a quarter century of gold depreciation.

Turning now to quite a different point there is one factor of which neither Dr. Snyder nor Professor Schumpeter made any mention, but which is, I think, of the highest significance to an adequate understanding of the present depression. We know from the history of the past fifty-five or sixty years that every second or third depression develops into a major depression. If we start with Aftalion's analysis we have at least a part of the explanation of the oscillation in the production of capital goods. This oscillation takes place even though the general economic development moves along on a fairly stable trend. But at times this general trend, if not in all industries at least in fields of major importance, slows down in its rate of increase and approaches an asymptotic level. At a certain point, long before this limiting value is reached, the capital producing industries are compelled to make a radical readjustment. Industry is confronted with a fundamental change in the basic data. A thorough-going redistribution of the productive resources must be made, and this brings about a major depression.

Something of this sort accounts in part for the severity of the present

world-wide depression. Beginning with 1928, western Europe was reaching a saturation point in the rationalization program which followed the wake of the World War. Notably Germany, and in considerable measure also France, was approaching the end of the major job of capital rebuilding and the overhauling of industrial equipment. Moreover, the German municipalities had neared the end of their spectacular borrowing and building of public works, which the cancellation of debts, resulting from the inflation, had released. Finally, the slowing down in the rate of increase in population growth throughout western Europe and the consequent effect on capital building was working in a similar direction. In the United States two major industries peculiarly sensitive to the business cycle were slowing down in their postwar rates of growth; namely, the automobile and residential building. Applying an apt phrase of Spiethoff's to the present situation one may say that after some years of relative prosperity the empty vessel of fixed capital in many industries both in Europe and America has been filled, and it is now only a question of keeping the stream flowing. When this point was reached a painful process of accommodation to the new facts became necessary. This lack of balance or disproportionality is, I believe, a factor which has substantially contributed to the depth and duration of the present depression.

POWER AND PROPAGANDA

By Ernest Gruening
Portland Evening News

The public is probably aware in a general way of the far-reaching attempt of the public utilities, particularly the electric and gas utilities, to create a public opinion in this country favorable to their interests. The acquaintance with this attempt is due to the extraordinarily able and conscientious work of the Federal Trade Commission over a period of nearly three years, in response to a Senate resolution to investigate such activities on the part of the great corporations of this country, particularly those in the business of manufacturing, distributing, and selling light and power. It will be recalled, and is memorable as one of the great ironies of our recent national politics, that these utilities exerted every effort to switch this investigation from the United States Senate to the Federal Trade Commission. In the Senate, such investigation was held by the utilities to be full of danger, dynamite, and demagoguery, whereas in the Federal Trade Commission, it would be all innocence, innocuousness, and ineffectiveness. The super lobby of the super power interests had its way. With the representatives of some hundred and forty legal firms from all sections of the country, it managed in the spring of 1928 to defeat the Walsh resolution for a Senate investigation of public utility propaganda and to procure said investigation by the Federal Trade Commission. Since that time, hearings have been held with occasional recesses and one notable interruption when officials of the Electric Bond and Share Company declined to answer questions.

This paper is an attempt to convey a picture of the character and extent of this propaganda. The paper is based on the testimony elicited in nearly three years investigation by the Federal Trade Commission and now in print. The material is taken wholly from the published record. But as this record now occupies some twenty-two parts of actual testimony and seven parts of exhibits, totalling 11,258 closely printed pages, or at a conservative estimate, more than five million words, something of the difficulty of trying to condense this material for adequate presentation in a relatively short space will be sensed. Particularly is this difficulty enhanced with the desire for literal quotation of many of the documents so that "out of their own mouths" the tale may be told.

Just who the originator was of this gigantic plan to indoctrinate the American people seems fairly clear from the record. Exhibit No. 186 declares:

> Early in 1919, Samuel Insull called together the executives of companies under his direction for discussion of public relations. . . . The meeting

was short. It came to a close with Mr. Insull's instruction, "Get busy and do something." In April of that same year, the Illinois Committee on Public Utility Information was organized. B. J. Mullaney, Mr. Insull's right hand man in public relations matters, became director of the committee and took charge of the work. . . .

The Illinois Committee has made good from the start. . . . Today the Illinois Committee is acknowledged to be the progenitor of a nation-wide movement consisting of a total of twenty-eight states and regional committees covering thirty-six states of the union.

Now just what this Illinois Committee did, this committee which is the "progenitor of a nation-wide movement," is to be found in a most illuminating speech by the same Mr. Mullaney in 1921, two years after Mr. Insull had told him to "get busy and do something." Said he:

When the committee celebrated its second anniversary last April, it had passed the five million mark in pieces of literature distributed. Those five million pieces of literature, all helpful to the utility industry, were not merely scattered broadcast, but were definitely placed: With newspaper editors for themselves and their readers; with customers of public utilities; with business men, bankers, lawyers, employers (for their employees), teachers, preachers, librarians, students in colleges and high schools, mayors, members of city councils and village boards, public officials of all kinds, and candidates for public office. Members of the legislature, for example, received informative matter on public utility questions, not after they were elected, but before they were even nominated.

Mr. Mullaney develops the other activities at great length, saying:

Space limitations forbid anything like a full account of how the committee works or what it has done. High spots in its routine may be summarized as follows:

A news service goes regularly to the ninety newspapers in the State; speakers' bulletins . . . a bureau to find engagements before clubs, civic associations, and so on, for dependable speakers on utility subjects.

Pertinent addresses and articles by important men, resolutions or other expressions by chambers of commerce and other bodies, exceptional editorials and the like, and special matter for customers, investors, and employees have been printed and circulated among special classes by hundreds of thousands.

More than eight hundred Illinois high schools are regularly furnished informative literature for classroom theme work, and debating society use.

By 1922, three years later, the country had been divided into twelve zones, and committees had been organized in a majority of the states. In a report at the 1922 meeting of the National Electric Light Association, it was declared that:

The one supreme danger that threatens the permanency and credit of our industry is the dissemination of false statements or erroneous information by

misinformed or ambitious demagogues. To overcome popular misconceptions, prejudice, and error, we must publish the truth and circulate it widely. (Exhibits, Part I, p. 100)

By 1924, Mr. H. T. Sands of the Electric Bond and Share Company, Chairman of the Public Relations section of the National Electric Light Association, indicated that the efforts had already been successful, saying that:

The bureaus have gradually broken down much of the suspicion toward the movement which was entertained by many of the newspapers when it was first started. This fact is evidenced by the number and character of the editorials appearing through the country which reflect the information which these bureaus have been furnishing. (Exhibits, Part I, p. 102)

At this same meeting, Mr. B. J. Mullaney, Director of the Illinois Committee on Public Utility Information, paid tribute to his employer, by saying:

Mr. Samuel Insull's recognition of the need for this work and his initiative in becoming the inspiration and motive power for organizing the first state committee on public utility information arose from a specific condition. . . . The need for this work . . . is the same now as it was in the beginning, even though the immediate need may not be quite so acute. (Exhibits, Vol. I, p. 102)

What that need was, Mr. Mullaney further pointed out in the following words:

Fundamentally the prosperity of our business, its growth and success, are built upon a proper state of public mind without which we do not get the money with which to build plants, and we do not get the favorable reaction from the public mind that enables us to sell our product to the best advantage and at fair rates after we have produced it.

As the business expands the need for cultivating this public attitude becomes all the more acute. The whole future of the industry rests upon our ability to continue the favorable mental attitude toward the creation of which we have made a good beginning. (Exhibits, Vol. I, p. 103)

Just how valuable Mr. Mullaney's services have been, although he modestly gave credit to his chief, Mr. Samuel Insull, may be deduced by the testimony of Mr. P. H. Gadsden, Vice-President of the United Gas Improvement Association, in 1924, when he declared:

Just five years ago the first meeting of state directors, so far as I can remember, was held in Chicago. I can remember it distinctly because there was no place for it on the program, no publicity had been given to the meeting, but I think our friend, Barney Mullaney, whispered in my ear that we were going to have a meeting in a room in the hotel. We were keeping it rather quiet for fear some of the executives might discountenance it.

Well, I went to the meeting. The room in which the meeting was held was certainly not over 12 by 15. I think there were 12 of us there . . . that was in 1919. Now it takes a theater to take care of us. From one committee, we have progressed to where we now have committees operating in thirty-six states. . . . What a tremendous growth has come about in that time! Five years only has this great movement, which is now sweeping over this country, been in existence. The very rapidity of its growth would suggest to us that perhaps the time has come when we ought to pause and take stock, to consolidate our positions, and mop up. (Exhibits, Vol. I, p. 104)

That was in 1924. But even by the next year, this "great movement" —this educational movement—had become so great that in the eyes of the electric magnates themselves, it had assumed a greater importance than any other activity of their industry.

Said Mr. M. S. Sloan, President of the New York Edison Company, and in that year Chairman of the Public Relations Section, in his report to the National Electric Light Association convention:

I weigh my words carefully when I say that I believe the work with which this section is charged is the most important in the whole broad scope of activities of the electric utilities. (Exhibits, Vol. I, p. 105)

And Chairman Sands, previously quoted, declared:

The commercial phases of this proposition sink into insignificance when compared to the public relations possibilities. . . . (Exhibits, Vol. I, p. 140)

And Mr. Gadsden, Vice-President of the United Gas Improvement Company, and Chairman of the Pennsylvania Committee, declared at the annual convention of the American Gas Association in 1925:

The movement has assumed such proportions that it is almost monopolizing the program of the American Gas Association. (Exhibits, Part II, p. 619)

And in the same meeting, Mr. J. B. Sheridan, Director of the Missouri Public Relations Committee, declared:

What have the state committees on public utility information done? In four or five short years they have just about changed the entire trend of economic and political thought in the United States. That's all. (Exhibits, Vol. I, p. 108)

The importance which these executives attributed to this work may be gathered from the statement of one of the speakers at the 1925 convention, Mr. Henry Swift Ives, who declared:

There can be no higher service than the preservation of republican institutions. . . . It is just as much the business of the electric light and power industry to preserve these republican institutions as it is for it to

give its patrons service and to make profits for its share holders. . . . [Exhibit Vol. I, p. 113] The country cannot exist half socialist and half free. . . . (*Idem*, p. 411)

In fact, the statements of many men prominent in the industry indicate their belief that its prime duty was not to produce electricity and to sell it, but to protect the nation. Said Mr. R. H. Ballard, Vice-President of the Southern California Edison Company and member of the Association's Public Policy Committee, at the 1926 convention:

At the present time, the major policy of our industry has to do with socialism. Like the single tax, it is an ever present menace to our people. So completely has this policy of socialism been discredited that almost never nowadays does the advocate of a socialistic scheme admit the name. (Exhibits, Part I, p. 114)

Just why the major policy of the industry should be activity against a social theory which according to the speaker had been so completely discredited, he does not make clear.

And President Franklin T. Griffith of the Portland (Oregon) Electric Power Company, declared:

An attack upon the principles for which we stand is an attack upon our government itself. (Exhibits, Vol. I, p. 147)

He further declared:

The public relations national section is the youngest of the four grand divisions and yet I believe we will all agree that it yields place to none of the others in the matter of valuable service to us all. (Exhibits, Vol. I, p. 146)

So much, briefly, for the general purposes and scope of electrical education. Now let us turn to a brief examination of its methods. These methods include work in the colleges and schools, the public platform, the radio, the films, the women's clubs, the business men, etc. In fact, in answer to the question whether any forms of publicity had been neglected by the N.E.L.A., its Director of Public Information, Mr. George F. Oxley, replied, "Only one, and that is sky-writing." (Part I, p. 214)

Let us first consider education through the institutions of education—the universities and colleges. In an address at a conference of the Middle West Utilities Convention of 1923, Mr. M. H. Aylesworth, Managing Director of the N.E.L.A. laid down the following prescriptions:

I would advise any manager here who lives in a community where there is a college to get the professor of economics, let us say—the engineering professor will be interested anyway—interested in your problems. Have

him lecture on your subject to his classes. Once in a while it will pay you to take such men and give them a retainer of one or two hundred dollars per year for the privilege of letting you study and consult with them. For how in heaven's name can we do anything in the schools of this country with the young people growing up, if we have not first sold the idea of education to the college professor? (Exhibit No. 4099)

At the convention of the National Electric Light Association in the same year, Mr. John C. Parker of the Brooklyn Edison Company, Chairman of the Committee on Co-operation with Educational Institutions, presented the program of his committee as follows:

The work of this committee then must be properly to relate the professors to the sources of information.

While not neglecting the students of engineering, the committee is of the opinion that its most important work will be outside of the engineering schools.

It is desired that coming generations of bankers, lawyers, journalists, legislators, public officials, and the plain, ordinary "men in the streets" shall have an intelligent and sympathetic understanding of the peculiar conditions under which public utilities operate. (Exhibits, Vol. I, p. 117)

After outlining an elaborate program, he declared:

The results will be intangible and the return for any effort expended in a given year may not be expected for some years after. None the less, the committee is persuaded that there is a very real opportunity to serve American education and incidentally strongly to benefit our industry. (Exhibits, Vol. I, p. 118)

The following year (1924), at the National Electric Light Association convention, the Rev. Dr. Charles Aubrey Eaton, member of Congress from New Jersey, and at the time also President of the American Educational Association, and likewise Manager of the Industrial Relations Department of the National Lamp Works of the General Electric Company, addressed this glowing tribute to the new educational drive:

I have gone over this list of some nine wonderful departments, and I would like to mention first especially the department that is dealing with the education of the young. That is fine. However, I would like to add to that, gentlemen, that the ordinary teacher in the school and in the college belongs to one of the three starveling professions. In this country we are supposed to be governed by ideas; we live by the art of thinking. The three institutions that deal in ideas are the school, the church, and the press, and those are the three institutions that we persist in starving to death.

Here is a professor in a college who gets $2,500 a year and has to spend $3,000 to keep from starving to death, who walks up to his classroom in an old pair of shoes and some idiot of a boy drives up and parks a $5,000 automo-

bile outside and comes in and gets plucked. Then because that professor teaches that boy that there is something wrong with the social system, we call him a Bolshevik and throw him out.

What I would like to suggest to you intelligent gentlemen is that while you are dealing with the pupils, give a thought to the teachers and when their vacation comes, pay them a salary to come into your plants and into your factories and learn the public utility business at first hand, and then they will go back and you needn't fuss—they can teach better than you can. (Exhibits, Vol. I, pp. 120-121)

Now this was actually done and done as widely as possible. A letter to that effect is Exhibit No. 434 of the Federal Trade Commission on the stationery of the Commonwealth Edison Company, Chicago, Illinois, April 30, 1923.

Mr. George R. Jones, Treasurer,
Public Service Company of Northern Illinois,
Chicago, Illinois.

Dear Mr. Jones: Mr. Insull has approved the employment by the Commonwealth Edison Company during the coming summer of four "engineering" professors from Illinois colleges. I think possibly this word "engineering" might be modified if there is some one in other departments whose society we are particularly anxious to enjoy.

The matter of whom we will invite and what work we will put them on should be settled very quickly. You are so much interested in this work that I will be glad to get your views.

Very truly yours,
F. GILCHRIST, *Vice-President*

(Exhibits, Vol. II, p. 408)

The Committee on Co-operation with Educational Institutions headed by Dean C. O. Ruggles, then of Ohio State, was an important instrument in the endeavor to secure liaisons between the public utilities and the academic world. Professor Ruggles, acting during a sabbatical year, was paid $15,000 and expenses for his services. The traveling expenses of a considerable number of professors to the meetings of this committee were also paid. (Exhibits Nos. 203, 397, 754, 1003, 1039)

In some instances the efforts at liaison between the public utilities and the academic world were successful; in others, not. Something of the technique of securing this co-operation is suggested by a letter by Major J. S. S. Richardson, Director of the Pennsylvania Public Service Information Committee to Mr. Elliott S. Belden, Director of the United Power and Light Company, written June 2, 1925:

My dear Mr. Belden: I am enclosing outlines of the public utility course recently run in the University of Pennsylvania and Temple University. The plan was put across in the usual way. We laid the ground work circum-

spectly and with care, so that the actual suggestion that such courses be started came from the faculties of the institutions themselves. The rest was routine. (Exhibit No. 1202)

It is fair to state that Professor Theodore J. Grayson of the University of Pennsylvania, who was giving the public utilities course, was emphatic on the stand that the utilities and not the faculty of the University had made the suggestion. (Part IV, p. 302)

On cross examination, Professor Grayson admitted that as an attorney he had for some years "represented a considerable number of small New Jersey utilities" (Part IV, p. 303), that he was Treasurer of the New Jersey Utilities Association (Part IV, p. 309), and that he also received pay as an outside lecturer against government ownership for the utilities. (*Idem*, pp. 302-303)

It should be understood that the utilities through the Committee on Public Service Information of Pennsylvania in part supplied money for this course. Professor Grayson himself wrote on October 14, 1925, to Major Richardson, addressing him "My dear Sandy," requesting that the deficit be made up by the utilities. (Exhibit No. 1204) And the deficit which Major Richardson testified to be "less than $500" was made up. (Exhibit 1198, Part III, pp. 379, 408)

In another Keystone State educational institution, namely, the Pennsylvania State College, we find that "several utilities companies in the state guaranteed subscriptions to the course"—the course in utilities economics—(Exhibit No. 1203) which according to a letter addressed to the professor who gave the course, by Mr. C. E. Reinicker, engineer for the United Gas Improvement Company of Philadelphia, was conducted "primarily for the ultimate benefit of the utilities and their customers. . . ." (Exhibit No. 1203)

And in consonance with the well-known adage that he who pays the piper calls the tune, the same engineer, Mr. Reinicker, submitted to Professor N. C. Miller, who was conducting the course, an approximately fifteen page detailed criticism of the way he conducted it. This criticism is illuminating because it embodies essentially a request that presentation in the course of a viewpoint contrary to that of the utilities be eliminated. (Exhibit No. 1203)

For instance, Mr. Reinicker says:

> I do not think that it is advisable to use the word "profit," as is so frequently done in the course, since in the utility business, in a sense, there are no profits. (Exhibit No. 1203)

It is perhaps not surprising to find that utility officials' recommendations and emendations were put into effect. (Part III, p. 378)

Moving northward from the Keystone State into the Empire State,

we find as late as February 23, 1928, that Mr. W. Griffin Gribbel, Chairman that year of the Committee on Co-operation with Educational Institutions, writing to the secretary of the American Gas Association:

> I have a letter today from Moore of the U.G.I., who is working on Cornell and Swarthmore. It is interesting to learn that Professor Frissell spent his vacation year in the employ of the U.G.I. Company. This ought to make him a "cash customer." (Exhibits, Part III, p. 491)

In the same month, February, 1928, we find Northwestern University in a letter from Dr. Richard T. Ely, "requesting financial support from the National Electric Light Association for a study into municipal ownership activities in California." (Exhibit No. 1003) A suggestion of the unbiased and scientific nature of such investigations is indicated by the offer of the privately owned Pudget Sound Power and Light Company to advance $150,000 for the purpose of investigating and giving publicity to the past operations of the Seattle Municipal Light plant in the conviction that "analysis . . . will disclose . . . damaging evidence to the cause of municipal ownership. . . ." (Exhibit No. 1003)

We also have the instance of the investigation made by Professor W. C. DuVall, Professor in the University of Colorado, of the municipally owned power plants of Colorado for which he received during one summer, the time when he made the survey, the sum of $1,692.33, paid for by the Rocky Mountain Committee on Public Utilities Information. The conclusions in his report were highly unfavorable to the municipally owned plant. (Exhibits Nos. 1788 to 1794)

In Colorado, as elsewhere, we find the same suggestion of indirect approach so that the universities might be, as it were, won over without their knowledge. In a letter, W. C. Sterne, Chairman of the Rocky Mountain Committee on Public Utility Information, writing the Executive Secretary of the Georgia Utilities Committee, said:

> Doubtless you are more or less familiar with the plan recently inaugurated by this committee for carrying forward certain phases of its activities in the institutions of higher education in Colorado. . . . A suggestion that I would make to those who contemplate taking up this activity is that an educational program of this nature should be launched by the universities, themselves. I feel that you will not get quite the results you wish if you go direct to the educators yourself. In this state, while the idea originated in the committee, it reaches the colleges and universities through a man high in educational circles who broached the subject without mentioning the public utilities as being interested. Therefore the colleges on their own volition developed the idea and the committee volunteered to render all possible assistance. (Exhibit No. 1783)

This same able executive likewise wrote to the Director of the Michigan Committee on Public Utility Information, in 1922:

I have just succeeded in perfecting plans for an educational committee to be composed of one member of the faculty of each college in the state. This committee has tentatively agreed to assist us in introducing public utility subjects in the lecture courses and for the debating societies. I feel that we will make a three strike in this activity, as we will educate, to some extent the members of the faculty who need such education, while, at the same time, assist in molding the opinions of the students and reaching a given part of the public through debates. (Exhibit No. 1832)

In Colorado likewise, we find the Rocky Mountain Committee on Public Utilities Information paying one-half the salary and the expenses of a research fellow. In launching the program, Mr. George E. Lewis, the Executive Manager for the Rocky Mountain Division, wrote to Mr. John C. Parker, Chairman of the Committee on Co-operation with Educational Institutions, as follows:

We decided that the best results could be achieved through the establishment of a fellowship. This medium, it was thought, offered a broad avenue for employing the facilities of a university with all the dignity and prestige that such an institution enjoys.

All negotiations were conducted through this committee which enjoys a splendid contact with and the confidence of all the institutions of higher education embraced in our territory—Colorado, New Mexico, and Wyoming. We left the selection of a suitable fellow to the university authorities, who after a thorough survey recommended Hubert P. Wolfe, a graduate of Northwestern University. This committee of course closely scrutinized his credentials, and intellectual leanings. It was agreed at the outset that this committee would bear half the expense of the fellowship—$1,000 for the first year, $1,100 for the second, $1,200 for the third. This expense comes out of committee income, derived from affiliated companies chiefly in Colorado. Thus far we have been engaged in imparting to Mr. Wolfe a practical utility viewpoint though he already had taken public utility economics which was a prerequisite to his retention by the university and this committee.

The Executive Manager then outlined the duties of the research fellow. They consisted in making a survey of all textbooks used in the high schools of Colorado to determine what inaccuracies exist with reference to public utility subjects, in assisting in the compilation of a series of more than one hundred lessons to comprise a correspondence course, and aiding in giving public utility economics, which had recently been launched by the University of Colorado through the efforts of this committee.

Mr. Lewis continued as follows:

We now have twenty-four public utility company executives as members of the university faculty and Mr. Wolfe is collaborating with each in the preparation of the nine major subjects to cover. (Exhibit 1782)

Before we leave Colorado, it might be well as illustrative of the technique employed to quote from a paper read by the same Mr. Lewis, entitled "Utilities Create Good Will by Advertising University Course," which in his own words was as follows:

A unique method of exploiting a correspondence course in public utility economics at the University of Colorado, and at the same time conveying a pertinent utility message to the public, has been perfected by the Rocky Mountain committee on public utility information.

The plan entails display of an attractively illustrated poster in two colors. This is being displayed on every electric, telephone, street railway, and gas company property in the territory covered by the committee—Colorado, New Mexico, and Wyoming. It also is being displayed in scores of high schools, libraries, and other public places.

On its face, the poster appears to be solely an advertising effort of the university, though the committee was its author and is bearing its expense.

The message which the poster conveys relates to the achievements of all the public utility services. Linked with this is the statement that the University, through its correspondence course, affords the sort of training that fits students to keep up such a record when the time comes for them to administer the affairs of the utilities with which they may become associated.

To tie in with the poster display, the committee had the poster reproduced in a two column newspaper advertisement. Proofs of this were sent to all companies, urging them to run the advertisement in their local newspapers, coincident with the appearance of the poster in their city. The committee agreed to furnish mats or plates without charge. Virtually every company in the three states which does any advertising has agreed to this arrangement.

Every company which displays the poster on its premises has been provided with a supply of pamphlets, issued by the University, describing the course, its costs, etc.

Another detail of the information committee's plan is to provide brief newspaper stories descriptive of the course for the newspapers in each town where the company uses space for the reproduction of the poster.

While the poster and newspaper reproductions have resulted in receipt of scores of inquiries from students throughout the committee's jurisdiction, there is no apprehension on the part of the utilities that they will be swamped with applications for jobs, for the correspondence course is very difficult and it will be some time before any of those who enroll complete it. Moreover, no pretense is made to turn out finished public utility executives. Rather, it is represented that the course merely provides the ground work and a general view of the utility business.

Officials of the University of Colorado have expressed their appreciation of the effort that is being made to advertise their course.

In view of the success that has attended the initial effort to advertise the course, together with the opportunity that such advertising affords for

presenting a variety of public utility messages to the people, it is likely that a follow-up poster will be prepared. The poster now on display will be shown for about six weeks. At the end of that time, if it seems advisable, the second poster will be displayed, followed, possibly, by a third along about the end of the college year, as the extension division of the university where the utilities course is being given operates throughout the summer months. (Exhibit No. 84)

Following the recommendation of the Chairman of the Committee on Co-operation with Educational Institutions, Mr. John C. Parker of the Brooklyn Edison Company, that courses of instructions be endowed in colleges, fellowships of research be founded, and that professors of economics be employed by neighboring utilities, this program was zealously pushed. Said Mr. Parker:

> From such departments would issue monographs and other publications of great influence in the forming of a sound opinion. More important is the fact that such a graduate department would constitute a supply of professors of business administration for the graduate schools of the country. (Exhibits, Part I, p. 118)

At the 1924 convention, it developed that the National Electric Light Association had paid to the Harvard School of Business Administration, $20,000 per annum for a number of years and had guaranteed $30,000 a year for three years. In his opening words to the convention, Donald K. David, Assistant Dean of this graduate school, said: "The Harvard Business School very gladly and very happily accepts its foster parentage." (Exhibits, Part I, p. 121)

At the next year's convention, Mr. John C. Parker, previously alluded to, had a few unfortunate experiences to relate. He felt that the committee had not always secured the proper reciprocity from the educational institutions which were being assisted. After alluding with some feeling to "the generous financial support of the association of research work in public utility management at Harvard University and . . . Northwestern University . . ." and expressing the wish not to burden the association with his troubles, he said:

> The association, having appropriated money for the conducting of research in public utility problems in these two institutions found itself somewhat in the position of having got hold of something by the tail and not being quite able to let go and not knowing quite where the two beasts were going to carry it. (Exhibits, Part I, p. 124)

He had begun to be "rather profoundly impressed . . . that the association may need an interpretation of the relations which should exist with educational institutions," and insisted that "relations are always mutual, and reciprocal." (Exhibits, Part I, p. 125)

Nevertheless, he was pained to report that "during the year there had been two outbursts in particular in the published pages of economic journals which have rather stirred up some of the members of the association. These came from one of the institutions to which we are giving some financial support." (*Idem*)

Still, it would appear from perusal of the records that such ingratitude and failure on the part of educational institutions to reciprocate 100 per cent was rather exceptional.

There was, for instance, the fine service rendered by Professor James Mavor, Professor Emeritus of Political Economy in the University of Toronto. Professor Mavor's book, *Niagara in Politics*, was dedicated to a "discussion of the failure of public ownership in Ontario, and the insidious methods of politicians." An accompanying summary, declared that Professor Mavor "believes that government operation is a dangerous and destructive fallacy and has written this book to prove it in the instance of the Ontario Hydro Electric Commission." It developed subsequently that the National Electric Light Association had "through a mutual friend" paid Dr. Mavor $1,000 at the time the book was being prepared. (Exhibit No. 48, Part VII, pp. 88-9)

Then there was Professor J. A. Switzer, Professor of Sanitary Engineering in the University of Tennessee, who with the authority inherent in his academic post was able to secure publication for his articles in various magazines. He also supplied information on Ontario that convinced an editor of a Scripps-Howard newspaper in Memphis that his previous judgment about Ontario's power situation was unfounded; that is, until he learned that Professor Switzer had received the information that he forwarded from the National Electric Light Association. (Exhibits Nos. 3012, 3812) Professor Switzer likewise received $500 and expenses to act as Secretary of the Southern Appalachian Power Conference. (Exhibit No. 3780)

And there was Dr. Hugh M. Blain, who served as Director of the Mississippi-Louisiana Committee on Public Utility Information, while continuing as head of the Department of Journalism of Tulane University, with the knowledge and consent of the President of the University. (Exhibit No. 2383, Part IV, p. 542)

Then there was Professor E. A. Stewart of the University of Minnesota. (Exhibit No. 39) It so happens that I had a personal and first hand experience with Professor Stewart which is peculiarly illuminating. On February 17, 1928, I was interested to read as the leading editorial in the *Portland Press Herald* (Maine), one entitled "Ontario's 'Cheap' Power," the word "cheap" being in quotation marks. It should be said in passing that the *Portland Press Herald* was one of the chain of Maine papers most vigorously espousing the cause of Mr. Samuel Insull and his

Maine utilities. This editorial was based on the authority of Professor E. A. Stewart, who, it stated, had made an impartial and scholarly survey of rural electrification in Ontario and had arrived at the conclusion that the farmers were very much worse off in Ontario than they would be under privately owned utilities. As Professor Stewart, as quoted in this editorial, had made statements somewhat at variance—to put it mildly—with conclusions which seemed to be derivable from the various reports of the Ontario Hydro Electric Power Commission, I wrote asking him whether he had been correctly quoted and whether his statements which seemed so contrary to the facts as we had understood them were surely correct.

On March 21, he replied:

> I am very glad to supply you and the papers of your district with information on the question of cheap power in Ontario. I understand that Maine is very much concerned over the power issue. I am very glad to lend any assistance that I can to give the people the correct information on such a question.
>
> Some of the other Maine papers have been interested in my report and the *Boston Herald* has also been very much interested in it. It might be possible for you and some of the rest of the papers, together with other interested parties in Maine, to get together and map out a program for some five or six addresses to be given throughout the state. Of course, if necessary, this number might be increased. I would be very glad to lend my assistance to give your people the proper information along this line and I believe that the expenses of such a trip would not be very expensive if several of the interested parties co-operated in this project. . . .
>
> I will say however, that the data as given in your paper is correct and the statement made in my report in which I quote the Engineering Department of the Hydro-Electric Power Commission of Ontario as approving my statement is also correct. My data were all checked by their engineers before being published. . . .

It will be noted that Professor Stewart was apparently under a slight misapprehension. He referred to the data in "your paper," meaning the *Portland Evening News*, and evidently thought that he was writing to the other paper, because I had certainly not suggested to him that he come to Maine and give any addresses. I had merely asked him for verification of his statements. He, however, came back with the suggestion that he would like to come and propagandize in the state of Maine and that it would not be "very expensive if several of the interested parties co-operated."

As a matter of fact, checking up Professor Stewart's statement that the Engineering Department of the Hydro Electric Power Commission approved his statements, and that his data were all checked up by the engineers before being published, led to the interesting refutation of

the Professor, contained in a letter by Mr. C. A. McGrath, Chairman of the Hydro Electric Commission, in these words:

Professor Stewart obtained information from the Commission regarding rural electrification in Ontario. When draft of report was completed, the same was submitted to commission's engineers for a check.

Stewart left Toronto before the check was completed, and on March 16, 1926, forwarded a letter stating: "I am enclosing a copy of changes and additions agreed upon at conference with engineers; we will agree to include all of these corrections and additions; our agreement to do this is proof positive that it will be done."

Changes and additions to report as requested by Commission's engineers were never made by Stewart. His original incorrect report was printed and his excuse for doing same was that the corrections did not arrive in time to be included in his publication. Not only are figures published in Stewart's report incorrect in many instances, but statements throughout the report are not in accordance with facts.

Now the really interesting part of this story is that while Professor Stewart was making this study, this impartial, scholarly and scientific study, of Ontario's power, he was in the pay of the public utilities, and in the Federal Trade Commission's exhibits will be found photostatic copies of his receipted expense bills and of checks given him by the North Central Electrical Association and the Minnesota Committee on the Relation of Electricity to Agriculture. (Exhibits Nos. 1743, 1745, 1746, 1748, Part IV, pp. 271-89)

Yet despite the fact that Professor Stewart was in the pay of the utilities in 1925 and 1926, the weekly letter issued by the joint committee of the national utility associations of September 17, 1927, declared:

Since Professor Stewart was highly qualified to make this study, and approached the situation with a wholly disinterested standpoint, his conclusions may be accepted as authoritative. (Exhibits, Part I, p. 365)

Professor Stewart has been widely quoted and his testimony displayed in many newspapers beside the Portland one. He is, however, no longer connected with the University, but has become president of a Minnesota power company.

Addressing the Public Relations National section of the National Electric Light Association in 1925, its chairman, Mr. M. S. Sloan, declared:

It is perhaps impossible to make our public relations work so inclusive that it will stretch from the cradle to the grave, but we can at least begin early with it and there is a particular need for furnishing correct information about our industry in the schools. School books in wide use all over the country have recently been analyzed. Many of them contain startling

misstatements about public utilities. The pupil studying such material, hearing it discussed in the classroom, starts life with a warped and biased point of view regarding public utilities, and this point of view formed in the impressionable years of youth is only too likely to remain unsympathetic and antagonistic through all future years. It is high time to be busy in furnishing correct information to the pupils in our schools wherever and whenever it can properly be done. (Exhibits, Part I, p. 122)

A survey in 1924 of all textbooks used in Missouri schools was summarized by Mr. J. B. Sheridan, Director of the Missouri Committee on Public Utility Information, as "wholly valueless, and in many instances, poisonous." (Exhibits, Parts V and VI, p. 333)

And George McQuaid, Director of the Texas Utility Information Bureau, reported:

All textbooks used in the schools are more or less erroneous on the utilities and generally on the fundamentals of economics. [He urged that the N.E.L.A.] interest . . . some proper textbook-writer in preparing an honest textbook on civics for use in the high schools of the country. (Exhibit No. 2252)

Mr. B. J. Mullaney, after a corresponding study in Illinois, found "most of the textbooks as relate to the public utilities industry . . . no less than poisonous. . . ." (Exhibit No. 450)

On October 28, 1924, Mr. Samuel E. Boney, Director of the North and South Carolina Public Utility Information Bureau, wrote to the vice-president of the Roanoke Rapids Power Company:

We are scanning the textbooks on civics and economics which are being used in our colleges and schools. . . . Please, for the present, regard this as confidential for we are hoping through quiet and diplomatic measures to have some of these inimicable textbooks discarded. (Exhibit No. 590)

At a meeting of the Missouri Committee on Public Utilities Information, Mr. F. H. Jenkins, Chairman of the Education Committee, National Electric Light Association, stated:

Procedure of this committee necessarily must be very careful, but that considerable groundwork had already been done to secure revision and rewriting of textbooks, treating the public utilities, used in the public schools. (Exhibit No. 2960)

Mr. J. B. Sheridan who had become Chairman of the Sub-Committee on Textbooks of the Educational Committee of the National Electric Light Association, presented to that body specific criticisms of the textbooks used in the schools and pointed out the need for revision, saying:

Some of the textbooks state that public utilities are or were overcapitalized, have "watered their stock," and impose excessive rates upon their customers to enable them to make financial returns upon alleged capital investment which does not exist in fact.

Some of the specific passages quoted as offensive are rather illuminating. In the annual report of Alfred Fischer for 1924 of the Michigan Committee on Public Utilities Information, he said:

> Let me give you a few samples of what is going into the minds of our young people. I quote from a book used all over the United States: "Franchises were very valuable and were frequently secured by corrupting the City Council. Attempts to limit the privileges of public utilities corporations have often been resisted by similar methods. Privately managed public utilities have, therefore, been a very potent cause of municipal corruption." (Exhibit No. 3132)

Another offending passage from the same book:

> There is little difference in the kind of activity involved in supplying sewers, streets, libraries, schools, and police protection on the one hand, and gas, water, and street railway transportation on the other. The line has been drawn at the point where the possibility of profit to some individual appears. (Exhibit No. 3132)

Several books by Professor William Z. Ripley, Professor of Economics at Harvard University, come in for condemnation. Of his book entitled *Railroad Rates and Regulation*, Volume 2, revised edition, the textbook analysis declares:

> Wherever it mentions electric railways, it does so in an unfavorable way and in connection with such matters as "overcapitalization," "stock watering," abuses in rate making, weaknesses in regulatory practices. (Exhibit No. 3473)

Of the volume entitled *Trusts, Pools and Corporations*, likewise by Professor William Z. Ripley, the analysis declares, "its whole general tone is objectionable."

Of a book by Professor William Bennett Munro, Professor of Municipal Government at Harvard University, entitled *The Government of Cities*, published by Macmillan Company, the verdict is, "Book as a whole is bad." (Exhibit No. 3473)

On Professor Charles A. Beard's *American Government and Politics*, the verdict is, "This book is one of the most objectionable ones in the entire list." (Exhibit No. 3473)

Passages declared objectionable are likewise found in *The Elements of Economics* by Professor Charles J. Bullock, such as, "Back of the boodle alderman, one always finds the respectable banker or eminent financier." (Exhibit No. 3490)

And in *The Outlines of Public Finance*, by Merlin Harold Hunter, Associate Professor of Economics at the University of Illinois:

> When the people began to realize the values of these rights [franchises] which they had so lavishly bestowed and when they turned to correct the evil

which they had brought upon themselves, no weapon seemed so readily available as increased taxation. (Exhibits, Parts V and VI, pp. 1018-19)

From *The Citizen and the Republic*, a textbook in government, by James Albert Woodburn, Professor of American History at Indiana University and Thomas Francis Moran, Professor of History and Economics at Purdue University, which book is labelled "Bad." The book lists several sources from which national campaign funds are derived. The objection is to the fourth of the various sources, which is as follows:

Private contribution by rich men and corporations who are interested in securing certain laws and policies enacted by the successful party. Corporations have been known to give generously to both party funds so as to stand in well and get what they want whatever party is successful. Large campaign funds coming from hidden sources have led to serious corruptions in the elections. (Exhibit No. 446)

How the professors were rated and estimated appears in a good deal of the correspondence between directors of committees on public information. In a letter to Rob Roy McGregor, Assistant Director of the Illinois Committee, Joe Carmichael, Director of the Iowa Committee, asks:

Dear Mac: The University of Iowa . . . is announcing a "Commonwealth Conference" . . . at Iowa City June 27-29. They are to devote one afternoon to . . . "Ownership and Regulation of Public Utilities." The leader of this discussion is Charles E. Merriam of the University of Chicago.

What can you tell me about him? Is he inclined toward municipal ownership. Is he a radical or inclined to be fair?

To which Mr. McGregor replied:

Answering your letter of May 28, concerning the conference to be held at the University of Iowa, as to Charles E. Merriam of the University of Chicago, I can only say "be prepared for the worst." Specifically, he is all wrong on the questions that you ask about. (Exhibits Nos. 423-424)

The same Mr. McGregor described two ways of suppressing the offending textbooks:

One was getting at the thing locally right away and stopping it in the local schools and the other was reaching the authors and publishers and also taking steps such as would prevent publication in the future of textbooks containing misinformation. The latter is a very slow process, but has to be gone through with. The other . . . gets action in the form of the removal of the books from the schools of the city. . . . (Exhibit No. 448)

So much for the textbooks. Now for the schools themselves. J. B. Sheridan, Chairman of the Subcommittee of the Educational Committee of the N.E.L.A., wrote:

We are . . . disposed to regard work in the high schools as more important than work in the colleges, because you catch the high school student who is

later to become the college student, and then you reach nine out of ten high school students who never do reach college. (Exhibit No. 464)

And the schools were attacked with impressive completeness. Let us examine the knowledge which it was sought to instill.

One school pamphlet is entitled *Electricity—How It Is Made and How Distributed.* It was widely circulated throughout many states. In the New England states, other than Connecticut, it bears the imprint of the New England Committee on Public Utilities Information. It appears innocent enough. It tells of the wonders of electricity, how electricity has abolished drudgery from the earth, giving something of the history of the discoveries in electricity, how electricity is made, etc. Careful reading of this pamphlet along with others, however, discloses that certain basic ideas which might be considered by an unbiased person as somewhat controversial, are presented as fact. What are these ideas?

First, that the power industry is owned by the public, by its customer owners, by the small investors. It is not even suggested that the utility stocks that are offered the public seldom have voting rights.

The Connecticut catechism is likewise very specific on the ownership of the utilities in the following words:

Who owns the utilities . . . in all probability, you, the reader, are one of them. If you own a share of stock in any or more of them, you are. If you have money deposited in any bank, you are. If you carry life insurance, you are. (Exhibit No. 1052)

Even the "widows and orphans," familiar a generation ago during the period of frenzied railroad finance, reappear as owners. In the pamphlet used in the Missouri schools, entitled, *Electricity—Its Process of Manufacture and Distribution Pictured in Simple Language*, we read:

The public service companies are owned in large part by the people generally, by persons of small means who own in small amounts bonds and stocks of the companies. Regulation of this service, therefore, must be carried on with the interests of these investors in view, many of whom are widows and orphans. . . . (Exhibit No. 2618)

Second, that plants and equipment must be large, and that units must be steadily growing larger. This is aimed, apparently, at municipal plants, which, supplying limited territory, are obviously often smaller than privately owned plants which supply a larger territory.

Third, the difficulties attending municipal ownership and its disadvantages are stressed in the following words:

Municipalities . . . seldom attempt the operation of the more progressive public services, such as the furnishing of light, power, gas, water, communication, and transportation, unless the community is too small for a private

company to operate at profit. In every case in which a community has attempted to operate a public service industry . . . like the above mentioned . . . it has been found that the costs of the service are higher than when the service is furnished by a private corporation. A study of actual returns for service rendered would not reveal this, for many municipal utilities are financed from the community treasury, as well as from their actual income. The higher costs in such cases are therefore not reflected in the rates for service, but in the higher tax rates which the citizens of the community must pay in order to keep their utilities in operation. . . . Our largest and most progressive cities rely on privately operated utilities. (Exhibit No. 1052)

The fourth idea is that utilities can earn no profits, and that the public utilities business is in this respect unlike almost any other business in the nation. In conjunction with this is the idea that the utilities are strictly regulated both in the matter of rates and in the soundness of their securities as investments. To quote the pamphlet in question:

In one important respect, public utilities are unlike almost any other business in the nation. . . . Under the prevailing system of regulation, they can make no "profits" in the sense other businesses do. They are allowed to charge only rates that will permit the earning of operating expenses, plus a fair return on the money invested in their properties. (Exhibit No. 175)

And as to securities, the Connecticut School pamphlet states:

Supervised by government, which is you, the operation of utilities is so regulated as to make them safe and desirable investments for insurance companies, banks, estates, small savers, and in fact, everyone. If the credit of the public utilities were to be impaired and their service endangered, your money, which is in the form of bank deposits, insurance policies, or public utility securities, would be endangered, for even though you may not know it, much of it has been invested in utilities because utilities securities are one of the safest investments on the market. Banks, insurance companies, etc., take no chances with your money. They invest it where they know it is safe—in utilities securities. So the destiny of the entire public and its business enterprises is intertwined with the destiny of its utilities. (Exhibit No. 1052)

An indication of the wide scope of this education in the schools may be gauged from a letter sent to all city and county school superintendents in the state of Tennessee by Guy P. Newburn, Director of the Tennessee Public Utilities Information Bureau, the opening paragraph of which reads:

We are enclosing herewith a set of pamphlets prepared by this office and designed for use of students throughout the state, particularly those in oral English, rhetoric, civics, physics, and current topics, and also for use in debating. (Exhibit No. 2997)

Speaking of debating, it is striking to see with what close interest school debates are watched. Mr. J. B. Sheridan, the Director of the Missouri Committee on Public Utility Information, writes on January 10, 1925, to Mr. A. T. Perkins of the United Railways, St. Louis, as follows:

Dear Colonel Perkins: May I venture to direct your attention to the attached clipping from the *St. Louis Globe-Democrat*, issue of January 10, which you no doubt have seen.

If it were not the second time within three years that municipal ownership of electric railways was the subject of debate between teams representing the St. Louis high schools, I would not bother you with this communication.

I have recently completed a survey of standard textbooks upon civics and economics used in the public schools in several states, and a survey of educational tendencies in the schools, and I am irresistibly driven to the conclusion that the chief effort of the public schools appears to be manufacture and production of socialists and communists.

Personally, I would like very much to ascertain the means employed to initiate, manage, and judge these debates in the public schools.

The debates are carried on very quietly, little or no newspaper publicity, but are usually well attended by parents, etc. I have noticed, too, that the side which advocates municipal ownership always gets the decision of the judges. I do not know if the judges are of the same personnel in each debate. (Exhibit No. 2978)

In the reply, Mr. Perkins, after careful inquiry, states of one of the judges, a professor whom he names, that "nobody could be more strongly opposed to municipal ownership" than he, but that he (the professor) had informed him that "the award of the judges had nothing to do with the merits" of the question itself, but to the fact that the winning team had an "unmeasurably greater number of points in the manner of presenting" its arguments, and that the judges could do nothing else but give the municipal ownership side the award.

Steps were then taken to see that all school teams debating the private ownership side should be supplied with material.

The Federal Trade Commission's testimony is filled with reports showing how completely the schools were covered and pages and pages are devoted to correspondence between the directors of public utilities information and school principals and school superintendents. In an overwhelming number of cases, there was apparently complete readiness on the parts of the schools to accept this material and to be unaware that it harbored any purpose other than to teach the children what was implied by the titles of some of the pamphlets: *The Romance of Gas, The Romance of the Kilowatt, The Romance of Electric Light, The Romance of the Trolley*, etc.

It is true that these romances were, as a romance should be, surrounded by a certain glamour which concealed any ulterior purpose. The executive manager of the Rocky Mountain Committee on Public Utilities Information, Mr. W. C. Sterne, in 1924, wrote to Mr. M. H. Aylesworth, executive manager of the National Electric Light Association, apologizing for these pamphlets:

> Please do not look upon our romance stories as something which we regard as our best effort. Frankly, these booklets do not entirely meet our desires. . . . Rather they constitute a "bread-pill," being designed for the perusal of educators who are somewhat chary of our intentions in going before students. Necessarily, our initial efforts had to provide something that would demonstrate that we are not trying to peddle a lot of pure propaganda. (Exhibit No. 1864)

And while not affecting the schools, yet carrying out the same general purpose of "catching them early," was the work with Boy Scouts and Girl Scouts, thus vividly outlined by E. C. Deal of the Electric Bond and Share Company:

> In personally working with the Boy Scouts, I have watched with a great deal of pleasure and satisfaction the splendid results that accrue to the community as a whole. . . . It is, in my opinion, the surest, quickest way, and most effective antidote for radicalism in America and no one is in a better position to promote work of this kind than those who are thoroughly experienced and seasoned in dealing with the public, such as the trained official of a public utility company and his various assistants who constitute points of contact between the company and the public.
>
> The general manager should identify himself with the Boy Scout movement . . . and should encourage some of his lieutenants to become scout executives, scout masters, etc. (Exhibit No. 2719)

After quoting the Boy Scout oath (On my honor, I will do my best—1. To do my duty to God and my country, and to obey the scout law. 2. To help other people at all times. 3. To keep myself physically strong, mentally awake, and morally straight), Mr. Deal continues:

> You can readily see that there is a whole sermon in this oath and the splendid invitation it offers scout executives and committee members whose duties require them to talk to the boys individually and collectively, to lecture them on good citizenship, and especially the essentials involved in healthy public relations. A public utility official is always in demand by the boys for lectures of this kind. . . . The knowledge of this good work and information as to who is responsible for same, soon finds its way into every home and is deeply appreciated by all boys and their parents, hence the benefit that can accrue to the public utility company through the activity of its officials . . . in this work. . . . Similar good work can be done through . . . Girl Scouts. (Exhibit No. 155)

And finally, after the schools, we get down to the kindergarten. In his report as chairman of the public relations section of the N.E.L.A., at its convention in 1926, Mr. M. S. Sloan reported:

> This section has printed a thirty-two page book, printed in color, for children. It is entitled *The Ohm Queen,* and is intended to tell the story of electrical service in the home, particularly to the young people who are such an important element in our homes, and who will be the customers, the investors, the voters, and the law-makers of the future. (Exhibits, Part I, p. 124)

The printing of samples of this juvenile amounted to five thousand copies, and the first regular printing, four hundred thousand copies. (Exhibits, Part I, p. 408)

Leaving the children, let us turn to the women. They provided a most fertile field for the dissemination of the new education. Said Mr. J. F. Owens, at the 1924 convention of the National Electric Light Association:

> It is about time we awoke to the fact that through women's clubs and through the cultivation of the women in the women's clubs, we have one of the greatest avenues for the dissemination of correct information relative to the public utility and of nullifying incorrect information. (Exhibit No. 12)

At the same meeting, Mr. H. T. Sands, Chairman of the Public Relations Section, stated that requests had been made of the committee for representatives to appear before women's organizations and to speak on the electric light and power industry. Mr. Sands said:

> I know of no other phase of our public relations work that gives promise of larger returns in public good will than the work of this committee. *(Idem)*

In the 1926 convention, the Women's Committee reported:

> One of the most popular and successful forms of entertainments to outside groups of women, and one that could be most profitably instituted in many other companies, was the holding of company "at homes" and teas. These helped to establish sympathetic contact between the women of the community and the utilities. (Exhibits, Part I, p. 110)

How the women's clubs and other clubs were worked was interestingly revealed by the chairman of the Northern Indiana Public Service Company who, in a report to the Women's Committee for the year 1925-26 to the Public Relations Section, gave this counsel to the assembled educators:

> Club memberships afford an excellent means of public contact. There are communities where this committee has representation in every women's club. This facilitates appearances before local and outside groups for the presentation of utility facts and information. Many of our women hold offices in these clubs, and it is worthy of note that in one city of this division,

the women's committee organized the Business and Professional Women's Club. Subscriptions to memberships in local clubs by individual companies might prove a very profitable expenditure. (Exhibit No. 212, 1061A)

And this practice, too, was widely followed. The activities through women's clubs, likewise included the paid employment of the president of the General Federation of Women's Clubs to write articles prepared in collaboration with the utilities, which were then placed in some of the leading magazines of the country. (Exhibit No. 3821, Part VII, pp. 210-214) The practice of writing articles for locally prominent women whose signatures carried prestige in the community was also followed. (Exhibit No. 1639)

However, despite the frequently avowed purpose and policy to "publish the truth and circulate it widely," and the particularly expressed appreciation of women as furnishing "one of the greatest avenues for the dissemination of correct information relative to the public utility industry and nullifying incorrect information," (Exhibit No. 12) the record shows some extraordinary instances of denying a considerable and important group of women, eager seekers for light, the information they sought.

A frantic correspondence arose early in 1928 between Mr. George Oxley, Director of the Department of Public Information of the N.E.L.A., Mr. J. B. Sheridan, and other utility publicity men, upon the discovery of a questionnaire on light and power issued by the National League of Women Voters, through that organization's living costs committee. And the recommendation of these committeemen on public information was couched in the following words of one of the utility executives:

> I have looked over the questionnaire on domestic power rates, together with the supplemental sheets thereon, and it strikes me that this was prepared by some one more or less familiar with the entire subject. I can see nothing of any material benefit which can be secured through the use of the questionnaire by the league, but suggest that you get out a letter to all electric utility members . . . in which you state that it is recommended that they ignore the questionnaire and do not fill it out or supply the information. (Exhibits, Parts V and VI, pp. 476, 477)

And at this point, it is pertinent to examine a little more closely just what kind of information these educators and publicity experts were eager to supply and what they were somewhat more chary about furnishing. Perhaps the key to a widely prevailing attitude of mind among them may be found in a now more or less famous formula for the political education of the American people. It was devised by the assistant director of the Illinois Committee on Public Utility Information, an

employee of Samuel Insull's who was asked by his chief, the director of the committee, likewise an Insull employee, what arguments he would use if running for the nomination for United States senator against a man whose speeches indicated a leaning toward public ownership.

To this, the Assistant Director, Mr. Rob Roy McGregor, replied, "My idea would not be to try logic or reason, but to try to pin the Bolshevik idea on my opponent." That recipe, and the psychology which prompted it, are encountered frequently in the material we are examining.

The request for that information and the formula itself of course originated in the office of the utility magnate who unsuccessfully attempted to purchase a seat in the United States Senate for one of his henchmen. I refer to the case of the lamented Frank L. Smith, who while Chairman of the Illinois Commerce (Public Utilities) Commission accepted a gift of $125,000 from Mr. Samuel Insull to aid him, Smith, in his campaign for the Senate. That his seat in the Senate was denied him and his election invalidated by a majority of the Senate on the ground that the election was "tainted with corruption and fraud," is now a matter of history.

Before leaving Mr. McGregor and his associates, a further example of their efforts to shape public opinion is revealed in a letter from Mr. McGregor to Mr. Mullaney, dated September 15, 1926, at about the time when the payments of Mr. Insull to Mr. Smith were becoming known. Here is the letter:

My dear Mr. Mullaney: With reference to the forthcoming meeting of municipal officials in Rockford on September 23, for the purpose of further agitation of "home rule" of public utilities in Illinois, I am enclosing a clipping pertaining to the subject which has appeared in several Illinois papers. It is credited to the Associated Press.

Regardless of what effect this meeting may have on the passage of the terminable permit measure, it is an attack on the public utilities and will be productive of unfavorable newspaper comment. If the A.P. considers Andrews' announcement that there will be a discussion of utility executives' contributions to Frank L. Smith's campaign fund of sufficient importance to publish it, it is probable that they will consider the discussion itself as a source of news. If the unfavorable statements which will emanate from this meeting are unrefuted, the fairest-minded reporter cannot help giving an account which will be unfavorable to the utilities. At the same time, a little debate by municipal officials will make a much better story than resolutions condemning state regulation of public utilities.

In view of this, I believe that officers of public utilities, operating outside of Chicago—for examples, Mr. Bradley, Mr. Gschwindt, Mr. MacDonald, Mr. Alexander—should personally get in touch with one or more prominent municipal officials whom they know personally and whom they know to be

favorable to the utilities, and arrange for these officials to attend the Rockford meeting. These officials would not have to champion the utilities—a few adroit questions would stop a stampede, bring a time-killing discussion, and provide much good copy for the newspapers. It would certainly cloud the main issue in the newspapers' stories. . . . (Exhibit No. 196)

Indeed, the essence of this propaganda was to discredit any and all attempts at public ownership and operation of utilities—federal, state, or municipal—to do everything possible in the matter of the two great pending power projects, Boulder Dam and Muscle Shoals, to see that these were turned over to private operation, to condemn, as demagogues, agitators, theorists, "pinks," "radicals," socialists, Communists, and Bolshevists, those who held opposing views. On the other hand, we have already seen the positive ideas about the ideal state of present private ownership, the implication that rates have through state regulation reached an almost irreducible minimum, that "holding companies"—which term is itself a misnomer and which should be replaced by the term "investment companies"—fulfill an essential and invaluable function. (Exhibit No. 1039) In short the propaganda is dedicated both to the destruction of municipal plants and to a maintenance of the *status quo* in the matter of regulation and financial structure of privately owned utilities.

The effort to indoctrinate the nation along these lines was enormous in scope. Millions upon millions of pieces of literature, ranging from single-page fliers to bound volumes have been printed and circulated. And as we shall see shortly, when we discuss the press, the object of much of this literature was to gain further currency for the ideas propagated, through republication, as news items or as the bases for editorials. Thus one exhibit, No. 1016, shows the printing and distribution of nearly twenty-three million pieces of literature—22,982,810 to be exact—at a cost of $115,807.08.

Some of the individual printings were enormous—5,116,125 copies each were printed of the following pamphlets: *Why Did 860 Municipal Plants Close?*, *Service at Cost*, *All in Favor of Paying More Taxes Say "Aye," Muscle Shoals*. Of the so-called Bruce Barton stuffers, nine million sets were printed.

Another exhibit, No. 841, shows the printing of 2,072,700 pieces of literature—none of these included in the foregoing—and the distribution of 2,061,422. And these represent only a part of the total production of printed material.

Apart from the literature sent out directly by the various utility information committees, and the publicity departments of the utilities themselves, were twenty-one million messages to policy holders of the Metropolitan Life Insurance Company, signed by Haley Fiske, Presi-

dent, the purport of which was that the company had invested heavily in public utility securities and how any unfair treatment of the utilities would be reflected on the mass of the people. (Exhibit 1033) On cross-examination, it developed that the originator of these messages was Mr. George F. Oxley, Managing Director of the National Electric Light Association. (Part III, pp. 222-3)

In addition were the various bulletins and clip-sheets sent out weekly by the state information committees.[1] Then there were special publications,[2] pamphlets,[3] a book,[4] and a great variety of other publications the mere enumeration of which would be extensive.

Then there was the platform. As early as 1922, in an address to the N.E.L.A. Convention, Mr. Martin J. Insull, Chairman of the Public Relations National Section, said:

> A public speaking committee was formed to organize through the geographical divisions, a bureau of public speakers, national in its scope, and dealing with subjects pertaining to the electric light and power industry. (Exhibit No. 8)

[1] A few of the titles of the articles they contained are suggestive: "Government Ownership Advocates Shade from Deepest Red to Mauve"; "High Cost of Living Noticeable in Cities that Operate Utilities"; "Russia Tried It, Too"; "Government Interference in Business a Growing Menace"; "The Bogey of 'The Power Trust'"; "Government Ownership Would Increase Taxes by Billion"; "Utilities of Today Belong to People, Says Galena Editor"; "Ownership of Utility Industry Is in People"; "It Was a Failure—Municipal Ownership Plant Given Away"; "Municipal Ownership Is Biggest Drag Civilization Has About Its Neck, Says Mayor"; "Do You Love Your Home?"; "Municipal Plants Fail"; "Boost Municipal Street Car Fare to Ten Cents"; "Need Holding Companies to Save Small Towns Farms, Says M. J. Insull"; "Denies Power Trust Tale, Warns Against Socialistic Moves"; "Unfair Attacks on Public Utilities Hurt People's Savings, Says Haley Fiske"; "Socialism Means Death to Initiative"; "Taxpayers Are Asked to Buy Utilities for Politicians"; "Higher Rates Would Pay Consumer Well"; "Italy Awakening, Rejects Socialism"; "Government Control Fails, Russ Chiefs Admit"; "Would Plunge Utilities into Politics"; "State Regulation Best, Says University of Illinois Professor"; "Profit, an Item Hard to Find in Utilities' Books." (Exhibits Nos. 548, 549, 3033-3040, 3043A, 3044, 3056, 3085, 3613-3616)

[2] Honorable Harry M. Daugherty, *True Public Ownership.* (Exhibit No. 3089) Samuel S. Wyer, *Niagara Falls: Its Power Possibilities and Preservation.* Mr. Wyer is a hydro-electric engineer. This study was initiated by the N.E.L.A. which appropriated $3,000 for the purpose. Mr. Wyer testified before the Federal Trade Commission that the association's committee lost interest when it discovered from his work sheets that he had merely "gotten together the fundamental facts," and although these were, in his opinion, unfavorable to government ownership as illustrated in Ontario, he was unwilling to draw conclusions and make recommendations. "What the committee wanted," testified Mr. Wyer, "was a snappy report against government ownership." Nevertheless the report was printed by the Smithsonian Institute, the first printing being five thousand copies. The costs were borne by the Duquesne Light and Power Co., of Pittsburgh, totaling $15,890, of which $9,700 was for Mr. Wyer's services, $5,790 for his expenses, and $400 interest since there was delay in the payment. (Exhibits 718, 1181, 1182; Part III, pp. 365, 366, 445, 446; Part IV, pp. 197-213, inc.) The Murray and Flood report comparing the government owned and controlled power with privately owned and regulated electric utilities in Canada and the United States, for the preparation of which the N.E.L.A. paid Messrs. Murray and Flood $8,830, and printed ten thousand at a cost of $13,800. (Exhibit No. 38)

[3] Pamphlets by Dr. Frank Bohn. (Exhibits Nos. 992, 1159, 1160)

[4] Ernest Greenwood, *Aladdin U.S.A.*, published by Harpers. (Exhibit No. 875)

By 1924, in the report of the public speaking committee of the National Electric Light Association, we find that this committee alone had through its speakers addressed over six thousand audiences, aggregating approximately nine hundred thousand people, not counting those reached by speakers sent out by other committees, by speakers sent out by individual companies, or reached over the radio. In 1925, the number of audiences had risen to ten thousand with an estimated total of one and one-half million auditors. By 1926, the number of talks had risen to 18,423, with an estimated total of two and one-half million auditors. By 1927, these figures, according to the committee report, had risen to 30,284 speeches, to a combined audience of nearly four million. (Exhibits Nos. 13, 15, 15½, 1017)

In making his report, Mr. Vivian, Chairman of this Committee, after detailing the progress made, said:

> The program of public speaking contemplated that at least once each year some phase of our story shall be told before Rotary Clubs, Kiwanis Clubs, Lions Clubs, Civitans, Optimists, A.B.C., and all other clubs, Chambers of Commerce, trade associations of all kinds, seventh and eighth grades in the schools, some eight or ten talks to be given each year in every high school, college, business and over the radio, and other groups. (Exhibits, Part I, p. 133)

Meanwhile, the power companies and information committees also succeeded not only in getting their own paid speakers before the public, but in preventing those who desired to present an opposing view from obtaining a hearing. For instance, Mr. John B. Sheridan, in charge of the propaganda in Missouri, was able through advertising pressure on the newspapers to prevent Carl D. Thompson of the Public Ownership League from appearing on a Chautauqua circuit. The various local power company managers induced the editors of certain Missouri newspapers in the towns where Mr. Thompson was scheduled to speak to write letters protesting against his appearance, and one of the company managers reported to Mr. Sheridan that "editors had promised to condemn him [Thompson] in editorials." (Exhibits Nos. 2660-65, 2668, 2671-2714, inc.)

Another great aid was a speakers' handbook which was reported upon in the N.E.L.A. Convention in 1926 which gave all the material that any well-informed public utility speaker need have, including for instance a speech which is marked "to be given before the civic classes of the fourth year high school," on "Regulation, Valuation and Rate Making for Public Utilities," the author of which was no less an expert than Mr. Martin J. Insull himself. (Exhibit No. 14)

Mr. Vivian, previously alluded to, also discussed the problem of "how

to secure opportunities to speak, and where speeches should be made" in the following words:

> This is an important activity and an easy one. Members of our industry are represented in practically every organization and their advice and suggestions are sought in arranging programs and securing speakers. It is, therefore, easy to arrange for a public utility speaker. With schools and educational institutions, it is necessary to go to the president, superintendent, or principal and clearly explain the importance of our program. . . . While there should be no let-up in our public speaking activities before civic organizations, still we believe high schools and colleges are our most fertile field. (Exhibits, Part I, p. 134)

One of the problems which confronted the utilities, and which they have since solved was ably presented, together with its solution, at the 1926 N.E.L.A. Convention by Mr. George E. Lewis, Executive Manager of the Rocky Mountain Committee on Public Utilities Information. Said he:

> The great difficulty at first was telling the story in such a way that it would be listened to. Being just average humans, utility representatives were loath to get on their feet and make talks in public. And after they managed to struggle to their feet, they didn't know what to do with their hands. Their voices failed them; their tongues clacked. They tried to moisten their fevered lips, but their dry as dust tongues afforded no relief.
>
> No matter how well these men knew their goods, they weren't able to sell them to their customer audiences. Often they left an impression of insincerity, and their talks lacked conviction. . . .
>
> Three years ago the Rocky Mountain Committee on Public Utility Information organized a speakers college in Denver. Professor Bertrand Lyon, one of the country's foremost in public speaking, was retained as a critic and teacher. The class met every Monday night for two hours.
>
> The first year, eight or ten men joined the class. Several quit under fire, for the professor was retained to criticize and instruct, not to give unfounded praise. The second year the class reached twenty.
>
> The college has just been opened for its third term, with an attendance of more than forty. Half of those in attendance were members last year and the year before. This year, there are six girls, members of the Women's Committee.
>
> Utility managers from half a dozen cities and towns adjacent to Denver are included in the speakers' class. Every Monday night, by motor and by train, these men go to Denver for instruction. As a part of its activities the Rocky Mountain Committee regularly furnishes speakers for universities and high schools. They are recruited from the committee's speaking college. . . .
>
> The public utility story is not only being well told in Colorado; it is being more frequently told.

In every state, an effective speakers' organization has been functioning along the lines already indicated. Not a club, not a group, not an opportunity where a few are gathered together, either in the name of social or fraternal intercourse, business or any other purpose, has been overlooked.

An interesting glimpse of the technique was revealed in a memorandum by Mr. J. B. Sheridan for a report to the public relations section meeting of the American Gas Association:

> Secretary of Missouri Committee [that was Mr. Sheridan himself] travels by auto over state, meeting newspapermen, operators, high school principals, mayors, legislators, etc., as he goes. When he gets to a town, he usually writes a nice interview with himself boosting the town, the country thereabout, the high school principal, points out the great opportunities the city he is in has, compliments its people generally and then drags in a little utility matter at the end.
>
> The small city papers usually print this stuff on the first page, and many large papers give it prominent position. It makes friends for the utilities. From time to time the secretary drops in with the local operator to the Rotary Club, Kiwanis Club, Commercial Club, etc., and when introduced, makes a short talk, boosting the city and its citizens, alludes to the necessities of the utilities, cracks a few jokes, pays a few compliments, and sits down, a matter of four or five minutes. We find this personal touch with the editors, operators and people very valuable. It gets the utilities much publicity and wins them many friends. (Exhibits Nos. 2879, 2880)

Likewise there were illustrated lectures, notably one with lantern slides, entitled "The Romance of Power" given throughout the country by Mr. Charles M. Ripley of the General Electric Company.

And there were lectures illustrated with motion pictures, and motion pictures themselves such as one called "The Spirit of Service," which the member companies were urged to make use of "before boards of trade, Rotary clubs, church organizations, civic bodies" as well as "in many cases to arrange with the management of motion picture houses to put the film on as part of the regular entertainment." (Exhibit 984) Other motion pictures were made especially "for use . . . in high schools." (Exhibits, Parts V and VI, p. 324)

Then there was a set of twenty-six "public utility films" produced by The Society for Visual Education, itself initiated by one of the utility operators, which films were produced "from the standpoint that public utilities must be privately owned . . . to obtain the greatest efficiency in operation." (Exhibits Nos. 378, 379)

And besides the silent drama, there was the legitimate stage. The Oklahoma Public Utility Speakers' Bureau in 1927 reported as valuable, "playlets illustrating some of the causes of misunderstandings and showing how these can be removed." (Exhibit No. 2589)

Then there was music. Bulletin No. 23 of the same bureau reports:

> Musical organizations are maintained by several companies, some of these composed entirely of girls. An outstanding example, is the Oklahoma Gas and Electric Company's girls' quartette, which is singing its way into the hearts of people who hear them. (Exhibit No. 2589)

Nor has the great silent and unseen audience, not gathered anywhere but sitting in the homes of the nation, been overlooked. Said Mr. B. J. Mullaney at the 1925 N.E.L.A. convention:

> The use of the radio in the broadcasting of information and advertising concerning the electric industry is steadily increasing. Several important companies own and operate broadcasting stations. (Exhibits, Part I, p. 143)

For the education of their own speakers, including radio speakers, much effort was expended. Exhibit No. 169 by the Illinois Committee on Public Utility Information gives a series of "good introductions" for public utility speakers telling them how to capture and hold the attention of an audience. One sample will suffice:

> Here is a short introduction, humorous, especially good before a radio audience, an audience hard to catch and to hold the attention of. This introduction gets a laugh on the speaker, brings him on the level of the audience, and the hearers feel that he is not above them for it strikes common ground. The humor is not for itself alone, but to catch attention and to help put the message across, it must be connected to the theme of the speech. The speaker himself shows the relationship between his introductory story and the rest of his talk.

Now here is this "sure fire" introduction as prepared for speakers who are to capture your attention:

> Governor Smith, of New York, was recently invited to address the inmates of Sing Sing prison. "Fellow citizens," he began, and then remembered that nobody in the audience had citizenship. So he tried again: "Fellow criminals," he stated, but realized that for a presidential candidate, that would be meat for an investigation committee. Stumped as to the exact word to use, he dodged the issue and with a smile began again: "I am glad to see so many of you here!" You can well imagine the din that followed.
>
> I am somewhat in the same position at this moment so I am simply going to address you as "fellow radio listeners" wondering just what is coming over on the subject, "You and Your Public Utilities."

Another field for the new education may be listed under the head of "Customer Ownership." In 1926, Mr. Martin J. Insull, addressing the N.E.L.A. Convention, as Chairman of the Public Policy Committee, said:

> Notwithstanding the splendid showing, it might have been better had it not been that some of the companies overlooked the many advantages of customer ownership, other than that of raising money. (Exhibit No. 14)

What the chief of these *other* advantages was appeared in a report of the customer ownership committee, in which it was stated:

In the day before customer ownership, the utility in its public relations was constantly on the defensive. . . . Ownership of these utilities has passed to Main Street. Our first thought of customer ownership is as to its value in public relations. . . . Customer stockholders should constitute a bulwark of protection for the utility against unwarranted political attack. (Exhibits, Part I, pp. 209, 213, 220)

The value of the army of customer owners for combatting anything which the utilities consider dangerous and for removing from the American vocabulary such distorted and libelous phrases—libelous and distorted according to the utilities—as "power trust," "electrical trust," and "huge profits" (these expressions are quoted directly from the words of Chairman Sloan, of the Public Relations National Section) and the manner of mobilizing these customer owners was shown in a series of twelve messages presented by the Public Relations Committee intended to be sent out monthly by all companies to their customers.

"A second series of four messages has been prepared," Mr. Sloan told the assembled manufacturers of light, "intended to be sent to stock-holders with dividend checks. In these messages," he pointed out, "the subject is approached from the view of self-interest on the part of these partners in our industries."

Frequent allusion may be noted in all discussion of the customer owners, to their potential services against what is termed "political attack." Sometimes a synonym for political attack is "rate agitation."

Finally, let us turn to the press. Among the instructions to executives of all important companies, that is to say, of all electric utility executives, issued by Mr. George F. Oxley, Director of the Department of Public Information of the N.E.L.A. was:

In order to make this campaign (that is to say, the educational campaign) effective, it will be necessary for the executive of every member company to enlist the support of every newspaper within the territory his company serves.

Have you established a close contact with the editors of your local newspapers?

If not, you should do so immediately. (Exhibit No. 42)

The methods of establishing close contact were multiple and various. A common denominator of virtually every information committee was a weekly bulletin or clip-sheet which was mailed to every editor with the objective of having some of this material printed, as news, as feature material, as editorials, or used as the basis of editorials. In every bureau, we find its director clipping, pasting up, measuring and, with some pride, reporting, either to his superior or at the next monthly or

annual meeting of the section or division, the number of column inches, and of full columns of free publicity which he had succeeded in getting published.

Likewise, Mr. George E. Lewis, Director of the Rocky Mountain Committe on Public Utility Information, reported in 1925:

> The Rocky Mountain Committee already enjoys the confidence of hundreds of newspapers in New Mexico, Colorado, and Wyoming. It enjoys the friendship of dozens of editors. It has taken three years of effort to establish this relationship. It will be necessary to capitalize this confidence and friendship during the next few years. To that end, every utility in the territory must lend its assistance.
>
> A tremendous change has taken place with respect to the policies of most newspapers as a result of our work. . . .

Mr. Bernard J. Mullaney of the Illinois Insull Publicity Organization had a somewhat different approach:

> We are trying to promulgate the idea rapidly among the newspapers that public utilities offer a very fertile field for developing regular, prompt paying, customers of their advertising columns. When that idea penetrates the United States, unless human nature has changed, we will have less trouble with the newspapers than we had in the past.

Human nature apparently had not changed! Advertising to win over editors proved an important contributing factor in the implantation of the utility viewpoint into the editorial sanctum.

Mr. Guy P. Newburn, Director of the Tennessee Public Utility Information Bureau, reported in 1928 that it had set aside a fund of $3,000 to be spent for advertising in the weekly papers, saying:

> Advertisements . . . have been carried in more than one hundred papers in Tennessee. These were placed during a personal call upon the editors, at which time occasion was taken to discuss the matter with the editors and place before them the facts as we see them. . . . As a result of these advertisements and our personal contact with the editors, we have received a very large number of favorable editorials.

The only unfavorable editorials, he stated, were in the two Scripps-Howard papers in Tennessee, and in the *Nashville Banner*. (Exhibit No. 3010)

In Missouri, this policy was so succesful that seven months after it had been inaugurated, Mr. Sheridan was able in September, 1922, to write to a fellow utility press agent in another state:

> We were successful . . . in increasing the amount of advertising which had been done in the state. This had a splendid effect upon the editors. . . . The result is that we now stand very well with the editors, and the press of the state. I may say that the newspapers are 99 per cent with the privately owned public utilities. . . . (Exhibits, Parts V and VI, p. 236)

After six years of such laboring in the vineyard, in 1927, the public utilities were able to report that there was only one paper out of the six hundred in Missouri—the *St. Louis Post Dispatch*—which had not succumbed to their blandishments.

"*The Kansas City Star*," wrote Mr. Sheridan to Mr. Oxley, "which has been inclined to be severely critical in the past, has taken a most conservative attitude in the past six months." (Exhibit No. 2951)

The really insidious thing about this whole utility propaganda perhaps stands out more clearly in connection with the press than with other phases, though characteristic of all of them. It centers in the concealment of origin, in the inability of the consuming public—in this case, the newspaper reader—to tell where the goods came from, to know, in other words, who is talking. Editorials inspired or actually written by power company representatives and then appearing as the newspaper's own, are legion.

One typical example may be cited. Mr. J. B. Sheridan wrote on June 13, 1923, to an official of the North Missouri Power Company at Excelsior Springs, Missouri, asking him to use his influence to get a piece of copy which he (Sheridan) had written and enclosed, printed as an editorial in the local paper.

Mr. Sheridan wrote as follows to the local utility magnate:

> The reason I desire to get this editorial printed as coming from the newspaper itself is that I want to reprint it as a special bulletin, credit the newspaper in which it appeared with it, and distribute it to all newspapers in Missouri that the editors thereof may get a sound understanding of the importance of the public utilities to the welfare and development of the state. (Exhibit No. 2908)

The local power executive had sufficient influence to bring about the desired result and the June 15 issue of the *Excelsior Springs Standard* carried the editorial entitled "The Real Value of Public Utilities."

It was not merely small town papers and country weeklies which consciously or unwittingly used as their own, editorials prepared for them by paid utility representatives. We find among the palladia of our liberties which printed such editorials, the *Philadelphia Public Ledger*, the *Boston Herald*, the *Boston Traveler*, the *Boston Post*, the *Kansas City Journal*, the *Birmingham News*, the *Portland Oregonian*, the *Omaha Bee*, the *Minneapolis Journal*, the *Montgomery Advertiser*, the *Charleston News and Courier*, the *Dallas News*, the *Dallas Journal*, the *Dallas Times-Herald*. (Exhibits Nos. 380, 1255, 1256, 1259, 2126, 2127, 2132, 2133, 2335, 2846, 3649, 4059, 4073, 4075, 4258)

So there is left the uncomfortable doubt when one reads a newspaper editorial, whether, though the voice is that of Jacob, the hands may not be the hands of Esau.

In addition to this, a great deal of prepared "plate matter" was sent out to country weeklies which was doubtless read by unsuspecting hundreds of thousands.

There is likewise repeated evidence of the great complaisance of the Associated Press in sending out, in the words of Mr. J. B. Sheridan, "practically everything we give them." (Exhibit 2962. Also Exhibits 3078, 3458)

Along these lines were editorial services of various kinds. There was an editorial service sold to approximately four hundred weekly newspapers, under the name of "Darnall's Newspaper Service" and in addition to these four hundred who paid for it, Mr. Darcy B. Darnall sent it free to a constantly changing list of some two hundred newspapers being paid by the power companies for these copies. (Exhibits Nos. 3012, 3750)

He likewise received $200 a month for sending out the anti-government-ownership editorials which appeared in his own paper, the *Florence Herald* (Alabama), to newspapers all over the country.

And then there was the editorial service of E. Hofer and Sons of Salem, Oregon, which sent anti-government ownership editorials to the weekly newspapers in the United States. This service, too, was subsidized by the utilities to the amount of $84,820.80. (Exhibit 3845; Part VII, pp. 233-4, 249)

In general, it may be said that the capturing of the press proceeded by the methods described, by the purchase of newspapers in certain localities, the controlling of others, through local advertisers or by pressure of various kinds.

Occasionally, we encounter an editor who plays more than a passive rôle in the process of seduction. It so happened that the editor about to be cited was also a labor union leader. Journalism would doubtless be willing to share him with, or even to yield him fully, to any other profession, craft, or trade.

> Dear Friend Sheridan: Have not had any advertising from the Missouri Power and Light Company for two months now. When this aggregation wanted a franchise they promised me support and advertising if I helped them. I did help them and now they have a fresh upstart here who says he knew nothing about our helping the company and that they have no advertising for our paper. . . . If you can do anything to line this bunch up for our paper, wish you would help me. Would hate to have to prove that I was wrong in supporting their franchise move but I can show up conditions which will look bad if I must.
>
> Incidentally, I wish you would furnish me with any data you have regarding rates for lighting . . . electric power, and gas . . . in each city of Missouri. . . . I want to start an educational campaign on the rates.

In this connection, Sea Isle City has been reporting substantial gains in

The letter is signed by Charles W. Fear, Editor of the ***Missouri Trade Unionist***, who likewise appears somewhat later as Secretary-Treasurer of the Republican Editorial Association of Missouri. (Exhibits Nos. 2797-2798, 2799)

It need not be left to the imagination but may be found very definitely in the record just how useful the intimacy of the utility propaganda director with the Secretary-Treasurer of the Republican Editorial Association of Missouri, who was likewise the Editor of the ***Missouri Trade Unionist***, proved to the utilities of the state. (Exhibits Nos. 2795-2806, inc.)

And while the approach was usually not so crude as in the above instance, it is by no means the only one in which the solicitation for advertising has come from an editor on the ground of service to the utilities, past, present, or potential. (Exhibit No. 3020)

An ingenious way of combining two methods of propaganda, namely, the platform and the press, was developed, according to him, by Benjamin Ling of Ohio who declared:

> Much of the material printed by the newspapers reflected almost wholly the viewpoint of the utilities, so that it might almost be labelled straight out propaganda on behalf of the utility industry. But this matter that might properly be classified as strict propaganda and thus be barred from the news columns of the big dailies, actually did find its way to these papers, because, being delivered by a speaker before a civic organization of standing in the community, it became news and was printed as such.
>
> Utility men want news that is propaganda for their own business of course. That is what they are paying for, and the only way to spread our propaganda is by means of speakers, and when a man like that [he was referring to one S. C. Maxwell, former secretary of the Ohio State Public Utilities Commission, who was being paid $3,600 a year for his speeches for the utilities] when such a man delivers a talk, it becomes news. (Exhibit No. 3447)

Were these champions always convinced of the worthiness of their cause and of the worthlessness of the opposition's contentions? Not quite!

Thus in January, 1926, Mr. C. H. Howell, Director of New Jersey Public Information Committee, and likewise President of the New Jersey Electric Association, wrote to Mr. George N. Tidd, President of the American Gas and Electric Company:

> Dear Sir: The attached confidential report has just come over my desk. . . . I note . . . a growing tendency on the part of these municipal plant advocates to eliminate power-house worries by buying current at wholesale. It really does simplify their problem tremendously and I am not altogether sure that it is the proper thing for us in any event to take on a power contract to wholesale to any municipal electric plant.

These and similar facts were not, however, given publicity in Mr.

In this connection, Sea Isle City has been reporting substantial gains in its net earnings since they have been buying power from us. I have instructed Mr. Swift to undertake to keep the demand up to the very highest point so that their power cost will be as much as possible. (Exhibit No. 3718)

A deliberate plan of quasi-sabotage against municipal plants is found in a report of the first meeting of the History Committee of the Great Lakes Division of the National Electric Light Association. It outlines a definite program for the elimination of municipal plants:

The securing of information as to each local situation of such a character that that particular situation can be worked on most intelligently. This information to comprise data as to the company best equipped to undertake the elimination of the plant, and information as to the condition of the plant in order to determine the time when a probable change or major rehabilitation is necessary.

Education of utilities to the simplest and most productive methods of acquiring municipal properties.

Working out certain fundamental policies on the part of ultilities toward the checking of municipal ownership growth. This applying particularly to avoiding the installation of steam water-pumping stations, or letting them continue in operation. Working out street-lighting contracts of such a character that they do not contain a possibility of developing into general municipal stations. The discontinuance of the practice of selling current to municipalities for redistribution by them and thus releasing the municipality of the odius burden of expenses of operating their own generating system. (Exhibit No. 298)

In January, 1927, the *Christian Science Monitor* published an article describing the operations of a successful municipal light plant in Ponca City, Oklahoma. Mr. Samuel T. MacQuarrie, Director of the New England Bureau of Public Utility Information, mailed the clipping to Mr. E. F. McKay of Oklahoma Utilities Information Committee, Oklahoma, writing:

If you have the time and inclination, I should be very glad to have an authoritative statement from you as to why you permit a municipal light plant to make so much money.

The article cited a profit of $550,000 in a five year period, plant enlargements paid for out of receipts, rates as low as any in the state, and actually a return of over $100,000 yearly to the city. Several offers from private utilities to buy the plant had been refused. Mr. McKay replied to Mr. MacQuarrie:

Dear Sam, I have yours of January 22 with story from the *Christian Science Monitor* in re Ponca City. The sad part of the story is that it is true. . . . (Exhibits Nos. 2608-9)

Hot dog! Boy, I am strong for you. For thirty years I spoke as I felt. For five years I held my tongue. Now I mean to resume the greatest of

These and similar facts were not, however, given publicity in Mr. MacQuarrie's weekly clip-sheet nor by any other utility information committees, although upon cross examination by Judge Healy of the Federal Trade Commission, Mr. MacQuarrie admitted "we have in New England a large number of municipal plants which are successful and well managed. . . ." (Part II, p. 167)

And finally, the following letter to John W. Colton, editor of a public utility magazine, by Mr. J. B. Sheridan, perhaps the most active and aggressive of any of the chairmen of utility information committees, is of interest:

> What can we do when the financiers will inflate, overcapitalize, sell securities based on blue sky or hot air, and rates must be kept up to pay returns on said blue sky and hot air?
>
> The best public-relations stuff in the world is a nice little reduction of rates. Do we get it? We do not. I know places where I believe a thirteen-cent top rate should be eight cents.
>
> A municipally owned plant in a city of eight thousand, pays all indebtedness on plant without recourse to tax fund, lights white way streets, etc., without getting money therefor, but it is charged on the books and has a top rate of eight cents per kilowatt-hour, four cents power; B, fifty miles away from A, eight thousand population, better industrial town than A, better power load, exacts a top rate of fifteen cents per kilowatt-hour, eight cents for power.
>
> Reconcile these if you can. I can't. I don't pretend to. There are no holes to be found in the municipal plant at A. As I see it, there is nothing inherently sacred in private or public ownership. It all depends on which works out the best for the public. We talk a lot about what private ownership has done. Yet many municipal plants were built because no private parties would build them.
>
> If cities and states own and operate highways, schools, streets, sewers, water supply, why not electric and gas plants? . . .
>
> I know places were public schools are anathema to the people holding with private schools.
>
> I believe in private initiative, but I don't believe in subsidizing it three or six cents per kilowatt-hour. The privately owned industry should be ashamed of itself to permit a municipally owned plant, operated on the square, to undersell it four to six to seven cents per kilowatt-hour. Don't say taxes? Taxes are less than $0.0023 per kilowatt-hour in this state. (Exhibit No. 2968)

In this letter is revealed an aspect of a power propagandist not previously exhibited. But it is still more fully exhibited in another letter which he wrote to a friend in the utility business:

> Yea-men are a little breed. Possession of property breeds liars and cowards. The man who invented private ownership was a mortal enemy of the human race.

panies took leading parts in the activities described, others were conspicuously absent, and had little or no interest in the education of the

Hot dog! Boy, I am strong for you. For thirty years I spoke as I felt. For five years I held my tongue. Now I mean to resume the greatest of human rights—that of free speech.

Damn it all, John, they never can make hypocrites and cowards of all the people. T'ell mit 'em.

Sincerely your friend, J. B. Sheridan. (Exhibit No. 2725, Part V, pp. 76, 77)

One could go on almost indefinitely multiplying the examples of the most far-reaching, most elaborate, most expensive, most protean, propaganda in the peace-time history of the United States. But in conclusion, one point needs to be emphasized; that is, that for all this, the public pays.

"Don't be afraid of the expense. The public pays the expenses," declared Mr. M. H. Aylesworth, Managing Director of the N.E.L.A. His advice was greeted by applause from the assembled public relations experts of the Southeastern Utilities gathered in Birmingham in convention.

The same wisdom was also emphasized by Mr. John B. Sheridan, who gave the executive secretary of the Missouri Press Association an explanation of how the utilities could afford it without cutting down their profits "simply by charging their advertising to operating expenses and making the consumer pay." (Exhibits 2740, 2740B, 2821)

And that it was indeed really cheaper for the public to accept the new doctrines readily, was the argument advanced by Mr. J. F. Owens at a meeting of the Committee on Co-operation with Educational Institutions of the Public Relations National Section of the National Electric Light Association, held in October, 1927. He declared:

> The more the public knows about us and our objectives . . . the less expensive it is for the public which in the last analysis has "to pay the freight." If there are misinformed men and women who through misinformation are led to believe that we are not doing the job properly, *that* costs, and the public pays in the end. (Exhibits, Part I, p. 446)

Yes, the public pays. It pays for the education which it never requested. It pays for the self-appointed educators. It pays so that the utilities may be able to maintain the gigantic financial stake inherent in the holding company pyramids, which in turn are predicated on high rates to the consumer and dubiously effective regulation. In other words, the public pays that it may continue cheerfully to pay more than it ought to for the essential commodity which the utilities now nearly monopolize and desire to monopolize completely.

Yet it should be observed that while certain practices are common to the utility industry, while the N.E.L.A. and some of the member com-

panies took leading parts in the activities described, others were conspicuously absent, and had little or no interest in the education of the American people. They considered that it was the function of the utilities to develop power, to distribute it, to sell it, to render good service and to do so at the lowest possible rates. Thus Mr. W. A. Jones, Chairman of the Executive Committee of the Great Lakes Division of the N.E.L.A., declared:

> Don't expect any amount of publicity, customer ownership, or employee activity will take the place of good service at reasonable rates. The public is not easily deceived, and if you attempt by the use of tinkling cymbals or loud sound, to distract their attention, they are likely to say to you, in the words of the great scholar, "What you are, rings so loudly in my ears I cannot hear what you say." (Part III, p. 831)

And Mr. Owen D. Young, Chairman of the Board of the General Electric Company, who is rather conspicuously absent from the propaganda record, though on the N.E.L.A.'s public policy committee, on the occasion of one of his rare appearances at the 1926 N.E.L.A. convention, sounded a totally different note, saying:

> The private-ownership people feel that if the government has anything to do with the development of power in these composite situations, it will be merely the starting point from which the advocates of public ownership will advance their operations. On the other hand, the public-ownership people feel that the privately owned companies which seek to throw dams in these great rivers, and incidentally perforce take over the effective navigation, irrigation, and flood control are so intrenching themselves in purely public operations as not only to make all thought of public ownership impossible, but to create instruments of oppression rather than of service. While this debate goes on, vast rivers go unharnessed for power—waterways are undeveloped—floods drown us, and droughts devour us.
>
> May I not call for a broader view in the public interest from the representatives of both the utilities and the public? Can we not find a way by which the sovereign powers of state may be recognized in the location, construction, and ownership of these tremendous structures in great rivers supplying governmental services as well as power? . . .
>
> Personally, I prefer that the construction and ownership of such an enterprise be in the hands of a public corporation, the stock of which should be government owned, with the provision that that corporation finance the enterprise with its own securities. (Part I, p. 114)

lature a document of prime significance in the field of regulation.[2]

THE FAILURE OF ELECTRIC LIGHT AND POWER REGULATION AND SOME PROPOSED REMEDIES

By Ralph L. Dewey
Ohio State University

The chief object of interest in the field of public utility regulation today is the electric light and power industry. Due to its rapid growth, its changing technique of generation and transmission, its dominance by a few holding companies, its powerful National Electric Light Association, and the importance of its product in American home and industry, it has come to engage the serious attention of a large number of people, including those whose attitudes toward this great industry vary from mild objections to certain of its practices to an indictment of the whole system of government regulation.

Much of the dissatisfaction of the public with existing conditions has crystallized in a number of very important governmental investigations, only the most notable of which can be mentioned in this paper. In 1928, the Federal Trade Commission, as a result of a Senate resolution, began an extensive investigation of the "financial and business structure of the electric power and gas industries, the policies and practices of holding companies and their affiliated (service) companies, and their alleged efforts to control public opinion on account of public or municipal ownership."[1] Later the Commission was called upon by the Senate to furnish data on the interstate transmission of power. Reports have already been completed on the propaganda aspects of the power industry (December, 1929) and on interstate transmission of power (September, 1930); as yet, however, the investigation of the activities of gas and electric holding companies, although uncovering a wealth of information, is unfinished due in part to the magnitude of the work undertaken and in part to the successful efforts of the Electric Bond and Share Company to avoid by injunction Commission inspection of their accounts and examination of their witnesses. In addition, the Senate Committee on Interstate Commerce, acting in accordance with a resolution offered by Senator Couzens and passed in 1929, has been looking into the rates, service, and government ownership of the electric industry, as well as those of the radio, telephone, and telegraph industries.

The work of the federal government has been supplemented by that of a number of states. In 1929, the states of New York, Massachusetts, and Wisconsin instituted comprehensive investigations to ascertain the effectiveness of regulation under existing statutes and procedure. The New York investigating commission has already reported to the legis-

[1] Federal Trade Commission, *Ninth Annual Report, 1929,* p. 108. See also Senate Resolution No. 83, 70th Cong. 1st sess., 1928.

lature a document of prime significance in the field of regulation.[2] Other states have followed the lead of New York, notably New Hampshire whose Public Service Commission ordered in May of this year a survey of electric companies in the state.[3] Even more recently, the Public Service Commission of Georgia, upon discovering that the Georgia Power Company, which controls all but a few of the private electric light and power companies in the state, had reduced its energy rates 50 per cent in Cordele and Crisp Counties to meet the threatened competition of a county owned hydro-electric plant, issued a ruling directing that company to show cause why the rates throughout Georgia should not be reduced to the same level.[4] In spite of interference by the courts, this promises to become one of the most interesting investigations in the country, at a time when actual or proposed inquiries are more numerous than they have been for years. In most of these instances, the rising tide of public dissatisfaction with the power interests has been the sole or prime cause of government action.

The present system of power regulation was inaugurated along with that of other local utilities about twenty-five years ago, when Governor Hughes of New York and Governor LaFollette of Wisconsin led movements to establish public utilities commissions. The movement spread rapidly, with the result that all states except Delaware now have commissions. State regulation is supplemented by federal control of hydro power on navigable rivers and public lands, authorized by the Federal Water Power Act of 1920. This Act invests in the Federal Power Commission jurisdiction over all projects involving the construction of dams, generating and transmission equipment, and over rates, services and securities when the business is interstate in character. Interstate transmission of power generated by fuels or by hydro not subject to federal jurisdiction is as yet unregulated.

Let us now consider the factors which have led to the breakdown of power control and hence to the public unrest noted above. The first set of considerations is to be found in the inadequate provisions by legislatures for effective state control of power. While it is true that all states except Delaware have established public utilities commissions, it by no means follows that there is adequate regulation of the power industry. In the first place, not a single state commission has supervision of the holding company which, as we shall see, is in virtual control of operating companies. Furthermore, twenty-five states fail to provide the commissions with power to control electric consolidations and mergers, while fifteen states withhold authority to prescribe and super-

[2] *Report of Commission on Revision of the Public Service Commission Law*, State of New York, Legislative Document No. 75, February 28, 1930.

[3] *United States Daily*, V, 1011, May 28, 1930.

[4] *Ibid.*, V, 1974, August 25, 1930.

vise electric company accounts. And what is even more astonishing, the commissions in seven states have no power over rates and rate schedules, the primary purpose for which regulation was instituted, or indeed over any phase of electric light and power operation, except transmission in one case.[5] Again, authority to value electric companies for rate making purposes is denied to the commissions of five states, and without this power it is difficult to understand how the reasonableness of rates can be determined. Finally, the meager appropriations of money and the haphazard selection of commissioners have combined to secure second rate regulation in all save a few states. It is seldom that commissioners or their staffs are as able or as well financed as the representatives of the power companies. In this unequal struggle, it is inevitable that regulation should fail to secure full protection of the public interest.

We must not, however, attribute the breakdown of power control solely or primarily to unprogressive state legislation.

The power industry can no longer be regarded as a local utility. We have recently become much more aware of its national aspects, thanks to the Federal Trade Commission investigation. Perhaps the two most interesting questions which have arisen in this connection center in electric holding companies and in interstate power transmission.

During the past decade and particularly during the past five years the electric power industry has increasingly come under the control of a few large holding companies. According to a report of the Federal Trade Commission, nearly 75 per cent of the total energy generated in the United States in 1924 was produced by subsidiaries of holding companies.[6] Although official data are lacking for later years, the Committee on Coal and Power reports that thirty-two groups controlled in 1929 about 92.5 per cent of the total production of power in the United States.[7] The Committee also states that the four largest holding companies, the United Corporation and Affiliates, the Electric Bond and Share Company, the Insull group, and the North American Company together controlled about 52 per cent of the total energy generated in 1929, while three other companies, the Consolidated Gas Company of New York, the Standard Gas and Electric Company, and the Southern California Edison Company, by controlling 12.3 per cent more, brought this figure to 63.9 per cent of the total for that year.[8] Control is probably far more unified than this statement would indicate in view of

[5] These states are Florida, Iowa, Kentucky, Minnesota, Mississippi, South Dakota, and Texas. See *State Laws On Public Utility Commission Regulation in the United States*, Bonbright and Company, 1928.

[6] Federal Trade Commission, *Control of Power Companies*, Senate Document 213, 69th Congress, 2nd Session, 1927, pp. 36, 37, 40.

[7] *Concentration of Control in the Electric Power Industry*, Committee on Coal and Power, 1929 (mimeographed pamphlet), p. 16.

[8] *Ibid.*, pp. 11-14.

the finding of the Federal Trade Commission that the North American Company has a community of interest with the Electric Bond and Share Company,[9] and the United Gas Improvement Company (a subsidiary of the United Corporation) with the Insull group.[10] It seems highly probable that more recent developments have considerably expanded this integrated control. However this may be, the power industry, by means of holding company control, has developed from a local to a national utility of a predominately monopolistic character.

This is not said by way of criticism of monopoly or large-scale operation in the power industry. The holding company, as I see it, performs a number of valuable services which may or may not accrue to the public welfare depending upon the effectiveness of public control. Such groups as those controlled by the Electric Bond and Share Company, the United Corporation, the North American Company, and the Middle West Utilities Company, are in a position to benefit from the specialized abilities of lawyers, engineers, and managers both in the construction and the operation of subsidiaries. Research projects are carried forward, comparisons between various sub-units are stimulated, and a rather large number of small inefficient local plants have been transformed into vital parts of a larger system by these means. Above all, the subsidiaries are in a position to gain from the financial aid which the holding company is enabled to secure and render. Due to the rapid expansion of the industry, the financing of extensions and betterments has been of great importance. By backing up the weaker members with its strong credit, the parent company has not only saved many a failing operating company, but it has also rendered a service to investors.

From the point of view of public control, however, I am inclined to the belief that the holding company offers insuperable obstacles to effective regulation as it is now constituted. In the first place, the holding company escapes regulation by the states because it normally does not operate any electrical companies and because its financial operations and control are interstate in character. Although the latter condition is insufficient to forestall federal control, there still remains a most important point, the question whether the federal or state governments can legally regulate as a utility a non-operating holding company. In the second place, the use of holding companies has led to a considerable amount of "pyramiding" in the power industry. By stringing as many as seven holding companies in tandem formation, it is possible both to increase the rate of earnings many fold on the common stocks of the holding company and to secure control of operating subsidiaries with a small amount of actual investment. It is possible,

[9] Federal Trade Commission, *Control of Power Companies*, p. 238.
[10] *Ibid.*, p. 235.

for example, for an 8 per cent return on a total operating investment of $1,000,000,000 in a group of subsidiary companies to become 138 per cent on a top holding company equity of $12,500,000 since the bonds and preferred stocks of the successive operating and holding companies can be sold for an amount which will yield below 8 per cent.[11]

But far more serious than the "pyramiding" of earnings is the "pyramiding" of control. The parent holding company, in one case which was brought to the attention of the Federal Trade Commission, was able to control operating properties worth more than $370,000,000 by an investment of less than $1,000,000.[12] This type of minority control in which the power of the top holding company to dominate policies far exceeds its ownership of operating capital has moved several observers, including Professor W. Z. Ripley and Commissioner J. B. Eastman, to question the social desirability of holding company operations. Since a small group of "insiders" are thus enabled to control absolutely the operation of valuable subsidiaries and yet are themselves immune from public control, the way is opened "for abuses through manipulation of accounts, secrecy as to financial conditions, concealment of assets, liabilities, profits or losses, diversion of profits to controlling interests through excessive salaries or clandestine transactions between companies or individuals."[13]

The Federal Trade Commission has also uncovered in the value of assets numerous "write-ups," inconsistent with the true value of the property of operating companies. For example, one day a number of small power companies had a valuation of $72,600,000. Then they were acquired by the Appalachian Electric Power Company, and the next day their collective value became $139,000,000 or an increase of 91.4 per cent.[14] In another case, the Electric Power and Light Corporation "wrote up" the value of the assets acquired at its organization to more than eight times the value at which they had been carried on the books of its predecessor company, the Utah Securities Corporation, or from $3,900,000 to $33,400,000.[15] Again, we discover that in the various reorganizations of its operating utilities, the National Power and Light Company (an important subsidiary of the Electric Bond and Share Company) "wrote up" their fixed assets by $35,000,000.[16] This did not include the "write-ups" of some predecessor companies which were reorganized, but the earlier data were not available. Similarly, examiners for the Commission uncovered a "write-up" of more than

[11] *Ibid.*, pp. 173, 174.
[12] *Ibid.*, p. 197.
[13] W. E. Mosher, *Electrical Utilities: The Crisis in Public Control* (1929), p. 90.
[14] Federal Trade Commission, *Utility Corporations*, Senate Document, No. 92, Part 22, 70th Cong., 1st Sess. p. 189. February 28, 1930. Testimony A. R. Colbert.
[15] *United States Daily*, V, 759, May 7, 1930. Testimony Kenneth A. Miller.
[16] *Ibid.*, V, 1328, June 25, 1930. Testimony A. R. Colbert.

$19,000,000 or $400 per share in the fixed capital of the Carolina Power and Light Company, which is controlled by the National Power and Light Company.[17]

Not only have the assets of already existing operating companies been inflated through acquisitions or reorganizations but the power companies have often inflated construction costs on new projects. For example, the Clarion River Power Company reported to the Federal Power Commission an investment of $11,032,817 as the cost of its thirty-three thousand H. P. Piney project. The Commission ordered this amount reduced by $6,387,732, or by about 58 per cent.[18] Fortunately for the public, this inflation was discovered in time to keep it out of the rate base, but one cannot fail to wonder how frequently the holding company has caused successfully the costs of construction to be similarly exaggerated.

Aside from the foregoing difficulties, which relate to holding companies proper, we must note the growth of intercorporate relations between holding companies and affiliated service corporations. These affiliated companies perform one or more of the three following types of service: engineering and management service, construction service, and financial service. Each of these types of service company may be illustrated respectively by the J. G. White Management Corporation, Stone and Webster, Incorporated, and by H. M. Byllesby and Company. The boards of directors of the service corporations usually interlock very closely with those of the holding company.[19]

The motives, which have prompted the holding companies to set up or affiliate with separate service corporations, may be on the whole worthy, but it appears that this method has been used also to remove profits from the reach of the stockholders and to avoid regulation. When an electric utility system becomes large, it is virtually impossible for the persons, who control the system, to own all of the common stock even of the top or control holding company. It is necessary, therefore, to issue such common stocks to "outsiders" and share the profits of the venture with them unless the profits of the system can be diverted elsewhere. Separately incorporated service corporations operating on a fee basis offer this opportunity for withdrawing earnings from holding company systems. Since the "insiders," or control group, can ordinarily retain a major share of the common stock of the service company, their rate of return is considerably above that which would be possible if a

[17] *Ibid.*, V, 2330, October 1, 1930. Testimony Carl H. Depue.

[18] *Ibid.*, V, 1976, August 25, 1930.

[19] For example, the W. S. Barstow Management Association, Inc., is allied with the General Gas and Electric Company, which is the system control company of the Barstow group of operating companies. Federal Trade Commission, *Control of Power Companies*, pp. 210-211.

large number of the common stockholders of the holding company were allowed to participate.[20] Furthermore, the separately operated service company gives a preferred claim on the incomes of the operating subsidiaries, because the service fee must be charged to operation and paid before dividends can be declared. Thus the "insiders" may derive an income through this channel even when the control holding company is not paying dividends on its common stock.[21] Finally, in those cases where the holding company controls operating subsidiaries in several states, the incorporation of separate service corporations operating on a fee basis permits the holding company to avoid doing business under the laws of the states involved. If the holding company operated a department which contracted with the operating subsidiaries for services to be rendered in the state in which the operating company is located, it might be made subject to the laws pertaining to foreign corporations and therefore to a certain amount of regulation. This the holding company avoids by setting up a separate service corporation.

In view of these facts (the inability of state commissions to regulate holding companies, the pyramiding of earnings, the pyramiding of control, the "write-up" in the value of assets by means of acquisitions and reorganizations, the inflation of construction costs and the setting up of separate management, construction and financial service companies which offer a means of extracting profits through excessively advantageous operating contracts with subsidiaries), it is clear that the holding company exercises a powerful control over rates and service and therefore must be brought under public regulation if regulation is to be effective. It is also clear that holding companies must be subject to federal control, since the holding companies are interstate in character. Those who hold either that holding companies need not be controlled or that the job should be left to the states, fail to realize the seriousness and the national character of the problem.

Closely allied with the spread of holding company control is the growth of interstate transmission of power, and such transmission is but a phase of the development of great super-power systems. This growth may be indicated in terms of kilowatt hour imports and in terms of miles of transmission lines. After an extensive survey of interstate transmission the Harvard Bureau of Business Research reported that of the 68,600,000,000 kilowatt hours generated in the United States in 1926, nearly 6,200,000,000 kilowatt hours or 9.06 per cent passed over state boundaries.[22] This percentage had almost doubled by 1929, when

[20] Federal Trade Commission, *Supply of Electrical Equipment and Competitive Conditions*, Senate Document, No. 46, 70th Cong., 1st Sess., 1928, p. 214.

[21] Federal Trade Commission, *Control of Power Companies*, pp. 210-211.

[22] Harvard Bureau of Business Research, *Interstate Transmission of Power by Electric Light and Power Companies, 1926*, Bulletin No. 68, p. 2.

nearly 16,700,000,000 kilowatt hours or 17.6 per cent of the total of 94,700,000,000 kilowatt hours generated were classed as imports.[23] The number of interstate transmission lines placed in operation during the past decade is also an indication of the rapid extension of interstate transmission. Of the 453 interstate transmission lines mentioned in the Harvard study for 1926, only 164 were in operation in 1920, while at least 152 or 33.6 per cent were completed in the years 1924-1926.[24] The number of lines was increased to 554 by the end of 1929.[25] Of these, 476 or 87.7 per cent were high tension; i.e., carrying 11,000 volts or more.[26]

But such is not the whole story of interstate transmission. A large number of states import or export more than the average of 17.6 per cent reported by the Federal Trade Commission. Unfortunately, official data of interstate transmission by states are not available; one must turn to studies completed by the National Electric Light Association for information.

In 1929 importations of more than 30 per cent of the energy consumed occurred in nine states, including: Mississippi, 76.7 per cent; Arkansas, 73.3 per cent; Delaware, 66.2 per cent; Nevada, 59.4 per cent; Utah, 53.1 per cent; Missouri, 47.5 per cent; Idaho, 40.3 per cent; West Virginia, 31.6 per cent; and Kentucky, 31.5 per cent.[27] At the same time, seven states exported more than 30 per cent of the energy generated: Vermont, 64.6 per cent; Idaho, 62.2 per cent; Maryland, 54.0 per cent; West Virginia, 54.0 per cent; Louisiana, 39.2 per cent; Iowa, 38.7 per cent; and South Carolina, 32.3 per cent.[28] Thus in fourteen of the forty-eight states the exports or imports of power formed a very sizeable portion of the total sales.

These data, in my opinion, though indicating the relatively small amount of power now passing over interstate lines on the average, nevertheless show quite clearly that there has been a substantial growth in this transmission within the past decade, and that interstate transmission is already of great importance in about one-third of the forty-eight states. In view of the fact that the federal government has never undertaken to regulate the production and sale of this power and that the United States Supreme Court has restrained the states from exercising control of rates for wholesale energy entering interstate com-

[23] "Report of the Federal Trade Commission on Interstate Transmission," *United States Daily*, V, 2233, September 20, 1930.

[24] Harvard Bureau of Business Research, *op. cit.*, pp. 1, 9.

[25] National Electric Light Association, *Interstate Transfer of Electric Power, 1929*, Statistical Bulletin No. 5, June, 1930, p. 1.

[26] *Ibid.*, p. 1. One line carried 220,000 volts.

[27] *Ibid.*, p. 2.

[28] *Ibid.*, p. 3.

merce,[29] it is clear that here lies an important field of the power industry which is entirely unregulated.

And now we come to the most important question of all, that of rates. The primary purpose of regulation is to secure reasonable and non-discriminatory rates. Since the legislatures have not undertaken to prescribe the basis by which reasonable rates may be determined, the various commissions have generally held that such rates must cover the following items: (1) the annual cost of operation, including reasonable operating expenses, maintenance, and depreciation, (2) taxes, and (3) a fair rate of return on a fair value. The courts are in agreement with this determination of reasonable rates.

It is obvious that the commissions are faced here with three distinct problems. First, the operating accounts must be prescribed and audited. At the present time, fifteen states still withhold authority to prescribe and supervise electric power company accounts. But the provision of an accounting system is only the initial step. Scarcely a state commission, no matter what the law permits, makes an audit of accounts except in special cases, and thus there is no assurance that the statements of the companies are reliable.[30] Under these circumstances, no one knows whether sums expended for salaries, materials, and other operating necessities are reasonable, and, therefore, whether rates are reasonable. Furthermore, the fair rate of return, which averages around 8 per cent for electric utilities, is but a rough measure of necessary capital costs. When creditor capital (bonds and notes) can be readily acquired at lower rates of interest (available to the electric power industry at an average rate of 4.5 to 5.5 per cent) and when preferred stocks can also be sold for less than the "fair rate of return" of 8 per cent (about 5.5 to 6.0 per cent), it is clear that the return on common stock equities becomes more than the "fair rate of return," the amount of excess depending on the proportions of low cost capital and the rates of return thereon. Indeed, it is not uncommon for the rate of return on common stock equities to equal 20 per cent.[31] In view of the ease with which the electric power industry may now finance extensions and betterments by the sale of bonds and preferred stock, there is warrant for suggesting that the "fair rate of return" should be reduced, or that some differentiation should be made in the return to creditors and owners. A similar method has recently been recommended by the New York Investigating Commission which advocates for all future investments that "the rate shall be fixed for bonds and preferred

[29] *Public Service Commission of Rhode Island* vs. *Attleboro Steam and Electric Company*, 273 U. S. 83 (1927).

[30] W. E. Mosher, *op. cit.*, p. 29.

[31] This is based on the common stocks of the operating company. As shown above, the process of "pyramiding" may raise this figure to well over 100 per cent.

stocks at the market price received from the purchaser and that for common stocks the Public Service Commission and the companies shall agree upon a reasonable rate of return necessary to attract new capital."[32]

While the problems of determining reasonable operating expenses and a fair rate of return are of high significance, public interest has centered most largely in the question of "fair value." Until a series of Supreme Court decisions interfered with their policies, most commissions had come to accept prudent investment as the proper basis of determining "fair value," except in cases where the plant and equipment of the utility had been constructed before commission control or before the utility had been made subject to public accounting control. This view had the support of many serious students of valuation, including Dr. John Bauer[33] and Dr. James C. Bonbright.[34] The Supreme Court of the United States has seen fit, however, to substitute its own doctrine of "present value" based largely on the cost of reproduction, a doctrine which has compelled the commissions to alter in part their methods of valuation. It was hoped that the matter would be settled in the O'Fallon case, but the Court, after referring with approval to its pronouncements in the cases of *Smyth* v. *Ames*[35] and *Southwestern Bell Telephone Co.* v. *Public Service Commission*,[36] directed the Interstate Commerce Commission to "give consideration to current, or reproduction, costs," although "the weight to be accorded thereto is not the matter before us."[37] Whether or not it will be possible to establish by statute and commission order the "prudent investment" rate base instead of the court's "present value" rate base, remains, therefore, one of the unsolved economic and legal questions of our generation.

Under the circumstances just described, it is not surprising that many thoughtful persons have come to regard present electric rate structures as unreasonable. They charge that in spite of the introduction of notable economies in the generation and transmission of electricity during the past decade, there has been no general revision of rates downward. As to the economies introduced in generation and transmission, there is no question. In recent years substantial advances in the design and operation of hydro-electric projects have been the rule. Even

[32] *Report of Commission on Revision of the Public Service Commissions Law*, Legislative Document, No. 75, 1930, pp. 22-23. Another authority to recommend a differential rate of return is Professor M. G. Glaeser, *Outlines of Public Utility Economics* (1927), p. 410.

[33] John Bauer, *Effective Regulation of Public Utilities*, pp. 54-55, and Ch. IX (1925).

[34] James C. Bonbright, "Railroad Valuation with Special Reference to the O'Fallon Decision," *American Economic Review*, XVIII, Sup. 1, 205.

[35] 169 U. S. 466, 546 (1898).

[36] 262 U. S. 276 (1923).

[37] *St. Louis and O'Fallon Railway Co.* v. *United States*, 279 U. S. 461, 487 (1929).

greater strides have been taken in the development of steam electric generation due to the "use of higher pressures, higher temperatures, larger units, improved types of boilers, and other mechanical improvements."[38] It is reported reliably that the average fuel consumption has been reduced from 3.2 pounds of coal per kilowatt hour in 1919 to 1.65 pounds in 1929, or what amounts to a doubling in a decade of the useful energy derived from a given fuel unit.[39] During a like period improvements in transmission have made it possible to send energy economically for distances up to 350 miles, and recent developments may treble or quadruple this achievement.

Have these economies been passed on to the public in the form of commensurately lower rates? Before we attempt to answer the question, we need to know the behavior of electric charges in recent years.

Rates have declined steadily from an average of 7.4 cents per kilowatt hour in 1922 for domestic use to 6.2 cents per kilowatt hour in 1929, a reduction of about 16 per cent.[40] This reduction is more apparent than real, however, because the average domestic consumer increased his purchases from 359 kilowatt hours in 1922 to 502 kilowatt hours in 1929,[41] thus securing the advantage of lower rates for increased consumption. It is likely that the reductions in domestic rates have really been nearer 10 per cent than 16 per cent, and, in any case, are much less than the amounts usually claimed by power company representatives.

Granting, then, that the level of rates is somewhat lower than that prevailing eight or ten years ago, is the level necessarily reasonable and just? The available evidence points to a negative answer.

During the course of the New York investigation, the Community Councils of the City of New York presented evidence to show that the cost of serving a domestic consumer using 50 kilowatt hours in a single month in New York City was slightly more than five cents per kilowatt hour for the New York Edison Company and slightly less than five cents for the Brooklyn Edison Company. Cost in each case included expenses for the following items: production, transmission, distribution, overhead and depreciation, 6 per cent on fixed capital, taxes and customer costs not varying with consumption. This evidence was not contradicted by the companies, and was interpreted by the Councils to mean that the maximum rate for New York City should be about five cents per kilowatt hour to domestic consumers and that the average

[38] Federal Power Commission, *Ninth Annual Report,* 1929, p. 3.

[39] *The Public Utility Industry* (pamphlet), Pynchon and Company, p. 10. In certain instances, the consumption is said to be less than one pound of coal per kilowatt hour.

[40] National Electric Light Association, *The Electric Light and Power Industry, 1929,* Statistical Bulletin No. 6, June, 1930, p. 4.

[41] *Ibid.*, p. 4.

rate should be not more than three and one-half cents per kilowatt hour.[42] Since the existing rate in New York City is seven cents per kilowatt hour to domestic consumers, the excess charge would appear to be at least two cents per kilowatt hour. That these rates are excessive seems to be corroborated by other evidence introduced during the investigation. It appeared that every member of the Consolidated Gas combine, except the New York Edison Company, earned in 1928 more than 8 per cent on the fixed capital reported by the companies themselves, plus an allowance for working capital.[43] The New York Edison Company reported a lower rate of return (7.77 per cent) largely because it was considerably overcapitalized.[44] In fact the whole Consolidated Gas system is alleged to be overvalued by an amount varying from $150,000,000 to $200,000,000.[45] The effect of overcapitalization is, of course, to understate the real rate of return earned by the company.

Similar evidence of excessive earnings and hence unreasonable rates was introduced for the state of New York as a whole. Of the seventy-five electrical companies reporting to the Public Service Commission in 1928, fifty-six made a profit of more than 8 per cent on their capital; forty-six made more than 9 per cent; thirty-four made more than 10 per cent; thirty made more than 11 per cent; fifteen made more than 15 per cent; ten made more than 20 per cent; while one company, the Corinth Electric Light and Power Company, made 31.7 per cent.[46] Commissioner Prendergast saw nothing to condemn in this for he asserted during the hearings that the Public Service Commission had so carefully scrutinized the rate structure throughout the state that the bulk of the rates were fair and reasonable and that the consumer interests were fully protected by the Commission.[47]

Although studies are not available for the United States as a whole largely because inadequate accounting reports preclude a detailed analysis of the costs of service to the various classes of users, the price-earnings ratios of public utility common stocks in comparison with rails and even industrials, during the past few years, indicate that speculative activity has been extremely marked in the public utility field. *The Annalist* reports that these ratios have been consistently higher since 1925 for public utility stocks than for industrial or rail stocks. Even in this year of depression the ratio has not (at this writing) fallen below

[42] *Report of Commission on Revision of the Public Service Commissions Law*, State of New York, Legislative Document No. 75, 1930, pp. 285-286.
[43] *Ibid.*, p. 288. Taken from an exhibit offered by Chairman Prendergast of the Public Service Commission of New York. (Exhibit No. 125B)
[44] *Ibid.*, p. 288.
[45] *Ibid.*, pp. 275, 280-281.
[46] *Ibid.*, p. 288.
[47] *Ibid.*, p. 289. See also *Hearings*, pp. 352, 539.

18.3 (or 5.5 per cent on stock values) and at one time was as high as 30.6 (or 3.3 per cent).[48] It is doubtful whether rate regulation is effective when public utility earnings can be capitalized at 5.5 per cent or less. Perhaps speculators are anticipating future increases in earnings, and, if so, it appears that they have little more than contempt for the effectiveness of the existing system of regulation.

While commission regulation has not secured, apparently, general reductions in rates commensurate with great economies of operation, municipal operation has had more effect. The Jamestown, New York, municipal plant, in competition with power supplied by the Niagara-Hudson system, has caused private rates to be lower in its vicinity than anywhere else in the Niagara-Hudson system, including Buffalo. The municipal maximum rate to domestic consumers is four cents per kilowatt hour as compared with four and one-half cents fixed by the private company. Both of these rates are markedly lower than the average charge of eight and three-hundredths cents for the state of New York. Indeed practically all municipals in New York in 1928 charged less than private companies in towns of the same size.[49] Similar results are to be noted in Kansas.[50] In Cleveland, the operation of a municipal plant has forced the private company to reduce its domestic lighting rate from ten cents to three cents per kilowatt hour. Does it appear that the privately owned Cleveland Electric Illuminating Company has rapidly approached bankruptcy? In 1928, this subsidiary of the North American Company earned, after deductions for operating expenses and taxes, over $8,600,000 or a rate of return of 8.5 per cent on a total investment of about $101,400,000,[51] in spite of a three cent domestic rate.

The most striking of all publicly owned power developments is the Ontario Hydro-Electric Power system. In 1928 this system distributed energy to domestic consumers at an average charge of one and nine-tenths cents per kilowatt hour or from one-fourth to one-third of the rates charged to the same class of users in the United States.[52] Contrary to public belief in this country, the Ontario system neither secures subsidies from the government (except for rural transmission lines) nor charges its power users more than rates in effect in the United States. In so far as possible every class of user must bear the full cost of power which includes operating expenses, depreciation, interest, sinking funds and obsolescence and contingency funds.

[48] *The Annalist*, October 17, 1930, p 672.

[49] *Report of Commission on Revision of the Public Service Commissions Law*, State of New York, p. 290.

[50] *Ibid.*, p. 327.

[51] *Annual Report of the Public Utilities Commission of Ohio*, 1929, pp. 372-373.

[52] *Twenty-First Annual Report of the Hydro-Electric Power Commission of Ontario*, 1928, p. 357.

In view of these rate and cost comparisons, one is forced to one of two conclusions. Either the private electric utilities are charging rates to domestic consumers considerably above necessary operating and capital costs, or they are less efficient than publicly owned companies. I am of the opinion that the former conclusion is the more valid. I do not believe that public operation is more efficient than private operation, but I do believe that the municipal and provincial companies have based their rates upon reasonable costs while the private utilities are charging what the traffic will bear without much regard for cost. The result is not only unreasonable electric rates but discriminatory rates.

At the present time, it appears likely that the industrial power users are paying rates which do little more than cover the costs of generating and transmitting the current which they use, thereby leaving to the domestic consumers most of the burden of overhead and capital costs as well as legitimate distribution and consumer costs. For example, efficient hydro or steam plants now generate energy at a cost of two-tenths of a cent to five-tenths of a cent per kilowatt hour. This energy can be transmitted at high voltages for distances up to 334 miles with small line losses at a cost not to exceed three-tenths of a cent per kilowatt hour.[53] The total costs of generation and transmission, even under unfavorable conditions, probably do not range above eight-tenths of a cent per kilowatt hour. Since power rates in New York and probably elsewhere average about one cent (or less if the amounts consumed are large), it may be observed that not much is left of the power user's dollar for the capital and other common costs of operation.

Apparently many of the commissions have more or less abdicated their powers over discriminatory rates, even as they have over reasonable rates. And along with this abdication has gone inevitably the breakdown of effective regulation.

What may be done to deliver us from this general impasse? Two alternatives are open to us: we may retain private ownership and operation under altered conditions of regulation, or we may turn to municipal or government ownership and operation. We have as yet taken only a few feeble steps toward strengthening government ownership and control of federal hydro-electric power resources. Although Wilson Dam was constructed by the federal government at Muscle Shoals, the power generated there has been sold to the Alabama Power Company for a very low rate (now two mills per kilowatt hour), while this company has continued to sell energy at Florence within sight of the dam, for two and one-half cents to power users and eight cents for

[53] See report of Sanderson and Porter, Engineers, to Dr. H. G. Moulton, President, Brookings Institution, January 15, 1929. Printed in H. G. Moulton, C. S. Morgan, and Adah L. Lee, *The St. Lawrence Navigation and Power Project*, Appendix K, pp. 655, 660 (1929).

domestic users, charging twelve and one-half times as much as the cost to power users and forty times as much to domestic users. Of course, certain small allowances must be made for transmission expenses, but the ratio still remains unbelievably high.[54]

Senator George W. Norris secured the passage of a bill during the 1928 session of Congress which provided for the use and development of Muscle Shoals under government auspices. The bill met with a pocket veto by President Coolidge. It was reintroduced during the last session of Congress but was defeated in the House. The federal government has undertaken to build a dam and power plant at Boulder Canyon on the Colorado River, and to sell power under fifty year contracts to various municipal and private interests in the southwest. Most hydro power sites, however, have been developed under the provisions of the Federal Water Power Act which permits the Federal Power Commission to license privately operated projects for specified periods of time.

In the realm of state ownership of hydro power, the controversy in New York between Governors Smith and Roosevelt and the private power interests over the St. Lawrence River sites has attracted wide attention. After a storm of public protest when this power was almost leased in 1926 to the Aluminum Company of America, E. I. Du Pont de Nemours, and the General Electric Company, Governor Smith proposed that the state should issue bonds, build dams and power houses, and sell power at cost[55] to a private transmission corporation. Governor Roosevelt in the main has supported this proposal, although he favors public instead of private ownership of the transmission lines. As yet, however, Governor Roosevelt has been unable to secure support in the legislature for his plan.

For fuel generation (and for a number of hydro projects as well) most of the public ownership to date in the United States has been by municipal governments. Although the bulk of the power business is now and always has been in private hands, the municipals have come to play a rather significant rôle in many communities. In 1922, some 2,500 municipal stations served over 1,640,000 customers in 2,940 cities and towns.[56] After that date, the number of municipals declined to 2,198 in 1927, but the number of customers increased 2,130,000.[57] At the present time the municipals outnumber private systems, even though the latter serve over eight times as many consumers and secure over twelve times as much revenue as the former.[58]

[54] Judson King, "Crisp County Bucks the Utilities," *The New Republic*, LXIV, 292, October 29, 1930.

[55] Cost to include the following items: operation, maintenance, depreciation, interest, and amortization of debt.

[56] *Central Electric Light and Power Stations*, United States Census, 1922, p. 10.

[57] *Central Electric Light and Power Stations*, United States Census, 1927, pp. 7, 24.

[58] For a more extended treatment of municipal ownership and operation of electric

Shall we attempt to extend municipal and government ownership throughout the electric power industry? Possibly herein lies the ultimate solution of our problem, but certain difficulties make the immediate success of the plan unlikely. First, the municipality is too small a unit to cope with super-power monopolies. We need political districts which will cover one or more states if we are to secure the fullest measure of benefit from recent technological and economic developments in the power industry. The proposal to establish state owned power plants in Wisconsin suggests a step in this direction. Other practical difficulties in the way of government ownership are the general feeling of distrust of government enterprise, the indifference and ignorance of domestic consumers concerning questions of rates and service, and the heavy expense of financing government purchase of a $10,000,000,000 industry (it is unthinkable that the government would undertake to duplicate existing facilities). It seems necessary for the time being to seek solutions which are based upon public control of a privately owned utility.

For the regulation of plants which generate and sell energy within a single state, it is indispensible that ample power be placed in the hands of the state commissions to control the rates, service, finances, and accounts of these companies. All contracts with parent holding companies and affiliated service companies must be subject to commission supervision with power to revoke if unreasonable. Finally, the state legislatures and the governors must realize as never before that regulation requires brains, training, and money, and that a more careful attention to the problem of personnel and salaries is a prerequisite to effective control.[59]

In the realm of interstate transmission and holding companies, the nature of the remedy is no less plain. The power industry is nationally controlled and in part nationally operated. It is no longer a local utility, of concern solely to the people of a given city, town, or state. It is interconnected over wide areas, and therefore must be regulated by some form of a federal agency. Much difference of opinion now exists as to the kind of federal agency needed.

Some would delegate to state commissions the power to act as agents of the federal government,[60] although it is doubtful whether such action would receive the approval of the United States Supreme Court. Others would form state compacts under authority of the compact clause of

light and power plants see Ralph L. Dewey, "The Municipal Plant," *Public Utilities Fortnightly*, V, 715-728, June 12, 1930.

[59] For a detailed set of recommendations similar to the above, see *Report of Commission on Revision of Public Service Commissions Law*, State of New York, Legislative Document No. 75, 1930, pp. 16-50. In connection with valuation, however, I prefer the proposals of the minority to those of the majority. See pp. 334-395.

[60] See Federal Power Commission, *Annual Report*, 1928, p. 18.

the constitution to secure joint control among the various states involved,[61] although this is undoubtedly attended by many difficulties including the large number of compacts necessary, and the slowness of states to agree upon a plan which is also satisfactory to Congress. Some would amend the Interstate Commerce Act to extend the jurisdiction of the Interstate Commerce Commission to interstate transmission, while others would create regional federal commissions.

All these proposals seem to me to fall short of attaining the desired object: effective regulation of a national utility. Probably the most workable solution offered to date is that contained in a bill already introduced in the Senate by Senator Couzens.[62] By means of this proposed law, the authority of the Federal Power Commission would be extended to include jurisdiction over all power generated by water or fuel and transmitted in interstate commerce. This authority would encompass holding companies and service corporations as well as operating companies in so far as they have a bearing on interstate power.

The Couzens bill would place the authority in a national commission and would thereby secure uniformity of control, regulation as extensive as the industry itself, and generally superior personnel. Controversies over jurisdiction would be more easily handled because of the plenary powers of Congress over interstate commerce. About the only disadvantage from a public point of view would be the comparative unfamiliarity of federal officials with local conditions. This deficiency, however, is more than offset by the many manifest advantages of federal control.

In conclusion, the public is directing increasing attention to the problem of effective public power control. For several reasons, including inadequate provisions of the states for effective control of purely intrastate sales, the rise of a national monopoly, increasing interconnection and interstate transmission, and interference of the courts under judicial review of rates and valuations, regulation has bogged down and become fairly inoperative. Some way out of the situation is imperative. The state commissions must be strengthened by added statutory powers over rates, accounts, financing and holding company contracts, and by better personnel and salaries. Those aspects of the industry which are national in character must be controlled by a federal commission. If the history of railroad regulation has anything to teach us, it is this one lesson. How the problem of judicial review can be solved, unless we are willing to alter the constitution or turn to government ownership and operation, must indeed remain a vexing question.

[61] Philip G. Wells, "Federal and State Relations in the Control of Power Development and Distribution," *Annals of the American Academy of Political and Social Science,* CXXIX, 131, January, 1927.

[62] Senate Bill No. 3869, 71 Cong., 2nd Sess.

PUBLIC POWER CONTROL—DISCUSSION

F. G. Crawford.—The chief causes for the failure of public utility regulation were outlined by Professor Dewey. He has indicated as his remedy that state control should be strengthened and that national control should supplement the regulation of the state.

One possible remedy was not proposed. This is public competition as a means of securing better control of electrical utilities. Although it is the general belief that public ownership has lost ground in the last few years, the facts do not show that the decrease has been particularly significant.

In the period from 1922 to 1927, municipal establishments decreased in number from 2,581 to 2,198. In the same period the number of commercial establishments dropped from 3,774 to 2,137, so that in 1927 municipal establishments exceeded the private in numbers. This is not a fair comparison because commercial establishments generated 95.3 of the total kw.h. in 1922 and 95.5 in 1927, a gain of 0.2 per cent in the five year period. The number of customers served by commercial plants increased from 87.1 per cent in 1922 to 90.2 in 1927.

With these facts in mind, I wish to review the results of the last election, to refer to the public power districts of California and Georgia, to point out the recommendations of the state wide investigations of utilities regulation and to indicate some of the legal restrictions on public ownership.

In reviewing the results of November, one is struck by the victories of public power projects and of anti-power candidates. These results may be only straws. It must be admitted in any election, that it is difficult to isolate a single cause of defeat or victory because there are so many factors. At least the piling up of these straws does show some trends in the direction of a critical attitude toward the public service commissions.

Muscle Shoals was a factor in the victory of Senator-elect John H. Bankhead of Alabama who is in favor of public development. During the campaign, he attacked Senator Heflin's power trust bias. In the neighboring state of Tennessee, Representative Reese, an advocate of private development, was defeated. He blocked a vote on the Norris Muscle Shoals bill and received President Hoover's endorsement as his reward. His opponent entered the campaign but ten days prior to election. Senator Norris, author of the Muscle Shoals Public Development bill, was elected despite the opposition of the power interests and of individuals in his own party. Senator Walsh, who introduced the resolution which initiated the Federal Trade Commission investigation, was re-elected.

Public power projects to be organized on a regional basis were approved by the voters of three states, while in three other states candidates favorable to these proposals were elected.

On the Pacific Coast, the friends of public competition won notable victories in Oregon and Washington. In Oregon a non-political, anti-power independent was elected as governor and the constitution was amended to permit public production and distribution of power through regional agencies. These districts are to be managed by boards of directors. Authority is

granted to levy taxes, issue bonds, to enter into contracts, and to exercise the power of eminent domain.

In Washington a bill was approved by referendum which permits the same type of development as in Oregon. The joint development of power projects on the Columbia River can now be undertaken.

In Nebraska, a referendum submitted by a Peoples Light and Power Association was successfully adopted. This law will allow municipal plants to extend their lines beyond the borders of the city and to pay for these extensions out of earnings. Municipal plants cannot be sold except upon approval of 60 per cent of the voters. Two other measures submitted by the power companies were defeated.[1]

The sweeping victory of Governor Franklin Roosevelt in New York at least indicated that the electorate did not regard with suspicion a public power project on the St. Lawrence. After fifteen years of political agitation, the Republican legislature which had been dominated by the power crowd, surrendered to Governor Roosevelt and granted to the Governor authority to appoint a commission to study the feasibility of a state-owned water power authority for the development of the St. Lawrence. The members of this commission include Congressman Frederick M. Davenport, Professor Robert Murray Haig of Columbia, Julius H. Cohen, Counsel for the New York Port Authority, former Lieutenant-Governor Thomas H. Conway of Plattsburg and Samuel H. Fuller, banker, of New York. The commission appointed an engineering staff which has reported that such a project is feasible at a cost of $171,000,000. Already conferences have been held with the Ontario authorities and the international problems will be solved.

In Wisconsin, Governor La Follette is expected to support the proposal of Assemblyman Reis for the creation of electric light and power districts. This bill provided that any two or more municipalities might organize and incorporate as a municipal power district, as a result of the approval of a majority of electors in the cities concerned. The district would have the power to levy taxes, to own, acquire, construct, and operate any utility within the district; to acquire or construct any water power or hydro-electric plant within or without the district and to sell to the public, to any municipality, to the state, or to any state institution heat, light, power service, and other services.

The results in Oregon, Washington, Nebraska, New York, and Wisconsin indicate that the public power movement has made progress in the last election.

A public power advocate and anti-power candidate was successful in Colorado, where a former Roosevelt Progressive and now Democrat was elected to the Senate. The opponent of Edward P. Costigan was an attorney for a holding company.

In Pennsylvania, Gifford Pinchot, one of the most outstanding opponents of the power interests, was elected. Although the issues were confused, many voted for and against Pinchot on the power issue.

[1] *U. S. Daily*, November 12, 1930.

Dean Cross of Yale, successful candidate for governor of Connecticut, made a popular issue of politics and power.

Municipal development in California has attracted nation-wide attention. The movement for public ownership in that state began following the election of Hiram Johnson as governor. The 1911 legislature took the first step toward municipal ownership and two years later an act was passed which provided for the formation of public utility districts. A public utility district under this act may be formed from municipalities only, or from both incorporated and unincorporated territory, but no municipality may be divided in the formation of a district.[2] In 1915 the legislature extended the public owner district law by providing that any portion of a city could form a municipal improvement district with the power to sell bonds to be used in the "acquisition or construction of any public work or public utility."[3]

The Metropolitan Water District Act of 1927 permits cities small or large, non-contiguous and extending over a wide area, to combine into a district to obtain a water supply for their present or future needs. This act was passed to secure water from the Colorado for southern California.[4]

The movement for public ownership of light and power in California is extending to rural as well as to urban communities. The two incorporated irrigation districts of Modesto and Turlock each include an incorporated city, several small towns, and a large acreage of agricultural territory. The power systems have been in operation since 1923 and have made available electric service at low rates to every farm in the district, without placing construction charges against the owner.[5]

Twenty-five projects for the public ownership of light and power are in operation in California. Of these, eighteen are electrical distribution systems owned and operated by municipalities which purchase energy wholesale from private companies. Seven engage in the generation of power. In addition to the two irrigation districts already mentioned, Los Angeles, Pasadena, and Avalon generate and distribute power to consumers. The Merced irrigation district and the city of San Francisco generate power which they sell to private distributing companies.

The county owned power plant of Crisp County, Georgia, was brought to public attention when a power project was opened in August of this year. The rate schedule of this plant was from 10 to 15 per cent lower than that of the Georgia Power Company in that territory. On August 20, that company announced a 50 per cent reduction in the energy charge for consumers in Crisp County. Full page advertisements, notified the state that the public agency's rates were "unfair competition" and that either the company or the public project would be put out of business in Crisp County before the rate war was over. The Commission then in-

[2] *California Statutes, 1913,* p. 450, Frederick L. Bird and Frances M. Ryan, *Public Ownership on Trial,* New York, 1930, p. 135.

[3] *California Statutes, 1915,* p. 99; *ibid.,* p. 139.

[4] *California Statutes, 1927,* p. 694; Bird and Ryan, *op. cit.,* p. 140.

[5] F. L. Bird, "Who Will Benefit by Boulder Dam," *The New Republic,* July 30, 1930.

tervened and ordered the company to show cause why it should not reduce rates by the same percentage all over Georgia. An injunction was then secured by the Georgia Power Company to prevent the new rates from going into effect.[6]

Under state constitutions and laws authority is granted to municipal corporations with regard to the production and distribution of electric power. Great variation is found in these laws. Three state investigations have been completed during the last eighteen months and their report throws light on the trend in those states.

In Massachusetts, the commission which investigated the Department of Public Utilities recommended:

1. That cities and towns should not be required to take any property not used for the service of customers within its own limits. This would not require the city or town to purchase equipment which had no connection with the business of supplying the particular service being purchased.
2. That if the private company operated both the gas and the electric plant, the municipality should not be required to buy both. The bill also provided that if it seemed expedient, the Department might require the municipality to buy both. If only one plant was purchased, the damages to be paid by the municipality should include as well severance damages.
3. That the decision of the Department as to the property to be taken and to its price should be final and not subject to review except in a case where the Department may have acted in bad faith.
4. Finally, the legislative investigating commission recommended that no municipal plant should be sold to private interests without the permission of the Department of Utilities. This step was recommended because utilities often induce cities or towns to sell.

The Wisconsin Legislative Interim Committee on Electric Power in their report said "the people of any community should be enabled to decide for themselves whether they desire public or private ownership. . . . Upon the much debated question of the advantages and disadvantages of public against private ownership, we express no opinion."

The minority members of the New York Commission to Revise the Public Service Commission Laws recommended (1) that municipalities should be granted authority to build their own electric systems in competition with private companies without approval of the Public Service Commission; (2) that municipalities be authorized to acquire private systems by agreement or condemnation; (3) that municipalities be authorized to replace private systems at the end of the franchise period of the latter without obligation to purchase the often antiquated plants; (4) that municipalities be authorized to serve adjacent territory. Governor Roosevelt accepted these proposals and has advocated their adoption.

In ten states the approval of the commission is necessary before a municipality can go into the business of supplying electricity. This per-

[6] *U. S. Daily*, Sept. 4, 1930.

mission must follow the approval of the voters or the governing body of the city. In six states the sanction of the legislature is requisite to the establishment of a municipal plant. Therefore in sixteen states the principle of home rule is subject to a state authority. It seems logical that municipalities should have the right to own and operate their own plants if they choose to do so, whether at the expiration of the franchises, through purchase or condemnation proceedings. In case of unsatisfactory service, competition would be a means by which the city could secure more equitable rates and better service.

In the other states competition is allowed. The Ohio constitution for example provides that any municipality may acquire, construct, own, lease, and operate, within or without its corporate limits, any public utility, that any municipality which acquires, constructs, or extends any public utility may issue mortgage bonds therefore beyond the general limit of bonded indebtedness prescribed by law, which bonds shall not impose any liability upon the municipality and shall be secured only upon the property revenues of the utility. Municipalities do not require a certificate of convenience and necessity from the utilities commission to engage in the utility business. This makes it possible for a city to go into the utility business at any time and if the private company does not provide reasonable rates the city may take steps to organize a competing company. This threat brings a decrease in rates which is the end sought. It obviates a long expensive case before the commission and the courts.

In Illinois, the municipal ownership act governs all municipal utilities. Any city has the power to acquire, construct, own, and operate any public utility, the major portion of which service is for the inhabitants of the municipality.

In Colorado the Supreme Court has approved the principle of competition in *People ex rel. Public Utilities Commission* vs. *City of Loveland* (Colo. 230 Pac. 399) Oct. 20, 1924, P. U. R. 1925 B. 512. The commission cannot require a city to secure a certificate of convenience and necessity in order to construct a plant. Competition may exist and the fact that private capital has invested in a public utility does not prevent a like utility from being constructed for the benefit of the city.

The right to sell outside the boundaries of the city has been denied the municipal company in seventeen states while in eight states current may be sold under certain limitations, such as percentage of total sales, in a restricted area, etc.

Criticisms of the public service commissions, the failure of the state legislatures to grant additional powers, and disclosure of the avowed policy of the utilities in regard to propaganda and financing have led to agitation for further rights for municipal companies. The results of the last election indicate this trend. The public power district would make possible the production of electricity for a number of cities.

The economies which have been effected by the private companies have come from the production of electricity by hydro plants or by efficient steam plants. The small plant can no longer compete on a favorable basis and

must give way to large-scale enterprise. This does not hold true for distribution. If electricity is generated by the regional plant and then sold for distribution to the smaller units, a public system can be developed which will approach the organization of the commercial holding company. Through this means, public ownership can survive and public competition can become a means of regulation. As has been stated on many occasions, if successful regulation is not achieved, the next and only logical step is public ownership.

IRSTON R. BARNES.—I am in general agreement with Professor Dewey's analysis of the present regulatory situation, differing from him chiefly in the matter of emphasis.[1] I shall, therefore, confine my remarks to his proposed remedies.

Mr. Dewey concludes that government ownership on a large scale does not offer an immediate solution; and in this he unquestionably represents the consensus of informed opinion which favors a further attempt to secure satisfactory regulation of our privately owned and operated utilities. Nevertheless, because of the present dissatisfaction with the attitude and conduct of some of our prominent utilities, public opinion would probably support the enactment of the Norris resolution for the operation of Muscle Shoals by a public corporation;[2] for the government operation of two such projects as Muscle Shoals and Boulder Dam should give a very significant "yardstick" against which to measure the performance of privately operated utilities. At least, this noble experiment could do no permanent harm.

Unqualified concurrence can be given to the suggestion that effective regulation necessitates giving our state commissions adequate regulatory powers to supervise and control all the activities of the operating company; particularly, as regards power to prescribe accounts and to audit them, to control capitalization and the issue of securities, to determine rates and rate schedules, and to have access to complete information regarding all intercompany contracts and transactions. I am unable to determine whether Professor Dewey is an advocate of the "prudent investment" rate base in preference to "present fair value." Without committing myself on this controversial point, I am very strongly of the opinion that the surer road to effective rate regulation lies, not so much in providing a statutory rate base, as in making appropriations adequate to secure and retain commissioners of training and ability commensurate with the difficulty and importance of their tasks, and to provide such commissions with adequate staffs.

Professor Dewey's support of the Couzens' bill to reorganize the Federal

[1] It is scarcely accurate to characterize the present situation as a "breakdown" in regulation. During recent months, our attention has been so largely concentrated on the unsatisfactory phases of public utility regulation that we are likely to assume that the whole scheme of public control of private enterprise has failed. The facts do not seem to warrant this assumption; for example, the State Railroad Commission of California reports reductions in gas and electric rates for the year ending June 30, 1930, amounting to something more than $10,000,000 (*The United States Daily*, October 3, 1930), and other state commissions have been able to report similar savings to their consumers. Furthermore, there can be said to be no "breakdown" in regulation in that large group of states whose commissions have never been able to exercise effective regulation by reason of the inadequacy of the statutes under which they operate.

[2] S. J. Res. 49, 71st Cong., 2d sess.

Power Commission[3] as a partial solution of the problems arising from the increasing volume of interstate power transmission, and by the dominant position of holding companies, is particularly desirable at this time when the opposition to the bill appears so widespread—as evidenced by recent journal articles and by the individual and collective opposition of many of the state commissioners.[4]

With the exception of certain minor provisions, the criticisms of the Couzens' bill seem neither convincing nor conclusive. The states' rights arguments which have been urged against any extension of federal regulatory powers and to curb the present jurisdiction of the Federal Power Commission—particularly as applied to minor part licenses under the Federal Water Power Act—appear either to be based on a misapprehension of the specific provisions of the bill and an unjustified assumption of a close analogy between the problems involved in the regulation of railroads and of electric power, or to be advanced as a means of diverting attention from the soundness and desirability of such legislation. Save for exceptional circumstances, the Commission's jurisdiction would be strictly limited to interstate transactions. The safeguards embodied in the bill[5] seem actually to strengthen, rather than to weaken, the control now exercised by certain state commissions in accordance with the Supreme Court's decision in the Pennsylvania Gas Company case.[6] The provision for regulation through joint boards on

[3] S. 3869, 71st Cong., 2d sess.

[4] See H. E. West, "The Menace of the Couzens' Bill," *Public Utilities Fortnightly,* VI, 579-590 (Nov. 13, 1930); National Association of Railroad and Utility Commissioners, *Proceedings, 1929,* pp. 127, 144, 406-410; also *Proceedings, 1930,* speech of President Webster.

[5] Sec. 31 (d). "Nothing in this Act shall be construed to authorize the commission or any joint board to regulate rates, charges, or services for or in connection with the generation, transmission, sale, distribution, and/or delivery of power which does not enter into or become a part of interstate commerce, whether for the purpose of removing discrimination against interstate commerce or for any other purpose."

Sec. 31 (g). "Notwithstanding the foregoing provisions of this section, nothing therein shall be construed to abridge the jurisdiction or authority of any state to regulate, to the same extent as if this Act had not been passed, the rates and charges for the sale to consumers within the state of any power transmitted in interstate commerce, service to consumers with respect to such power, or the abandonment of any power service to consumers, unless a substantial number of the consumers of such power (to be determined by the commission in accordance with such regulations as it shall prescribe) file with the commission a petition requesting such Federal regulation of such rates, charges, and service under this section. . . ."

[6] Electic power transmitted across state lines in interstate commerce may be classified in one of two groups of transactions: (a) a corporation may generate or purchase electric energy in one state and sell it to a company in another state, the energy to be sold and distributed in the receiving state—a wholesale transaction; (b) a corporation engaged in the sale and distribution of electric energy in one state may purchase or generate a part or all of its power in another state—and import it into the home state where it deals directly with consumers; for convenience this may be described as a retail transaction. The first set of circumstances—a wholesale transaction—conforms to the facts in the Attleboro case (*Public Utility Commission (R.I.)* v. *Attleboro Co.,* 273 U.S. 83), in which the Supreme Court held that the Rhode Island Commission might not regulate the rates charged by Narragansett Electric Lighting Co. for current supplied wholesale to the Attleboro Steam and Electric Co. for distribution and sale by the latter company in Massachusetts, on the ground that such a transaction was interstate commerce over which the federal jurisdiction was exclusive, so that the states might not regulate even in the

which each interested state should have a representative would seem to be a satisfactory means of safeguarding and preserving the interests of the states;[7] it would, however, be advisable to modify this section of the bill to require a representative of the Federal Power Commission on all such boards, and, perhaps, to give the Commission a veto power over the determination of such joint boards. The contention that such regulation is unnecessary by reason of the relatively small volume of interstate power transmission seems likewise to be without merit. The volume of such interstate transmission is rapidly increasing; it is already important with respect to some fifteen or twenty states; it is largely unregulated. Furthermore, it is desirable that the Commission have such jurisdiction before its exercise becomes essential on a large scale, since sound administrative policies are more likely to be evolved in the absence of a pressure of many cases awaiting immediate decision.

The introduction of the holding company into the public utility field has created a whole new set of problems which have been analyzed in part by Professor Dewey and by Mr. Gruening. There have been repeated assurances from the utility interests that the holding companies have made possible important economies and improvements in service; however, there is grave doubt among students of our utilities, whether the consuming public, or even the investing public, has, in fact, benefited in proportion to the theoretical economies. It cannot be denied that the holding company device has been subject to grave abuses. At the present time, the public's attitude toward utility holding companies seems to be one of suspicion and distrust—an attitude which places upon the utilities the burden of proof in establishing the social desirability of such super-corporate organizations. This public attitude is a natural consequence of the apparently large profits that have accrued to the holding companies, and of the refusal of the holding companies to make public their intercorporate relations. Only complete publicity with regard to such intercorporate relations and specific demonstration of economies realized and passed on to the consuming public will be effective in removing such suspicion.

The question of the federal government's power to regulate holding companies must be answered by the political scientists. If such power exists, and to my mind there is no doubt of the federal government's power to regulate, there can be little question of the desirability of such regulatory control. Some of the reasons for such regulation have been developed by Professor Dewey and Mr. Gruening. I should like to stress one additional point—the issuance of securities. Since much of the capital currently in-

absence of federal regulation. While no case has come to the Supreme Court involving the interstate transmission of electric energy under the second type of transaction, it has been assumed that the principle of the Pennsylvania Gas Company would apply (*Pennsylvania Gas Co.* v. *Public Service Commission (N.Y.)*, 252 U.S. 23). In this case involving the right of the New York commission to regulate the rates to consumers, the Supreme Court stated that the control exercised by the New York commission was essentially local, having only an indirect and incidental effect on interstate commerce.

[7] S. 3869, Sec. 31 (b), (c), (d), (e), and (f).

vested in the utility field is secured through the sale of holding company securities, it is obvious that the over issue of such securities, accompanied by "write-ups" and inflation of assets—as revealed by the investigations of the Federal Trade Commission, and by the Federal Power Commission in its attempts to arrive at the investment cost of licensees under the Federal Water Power Act—can only have an unfortunate effect upon the credit standing of utilities' securities, and thus increase the cost of obtaining necessary capital. Hence the extension of adequate regulatory control over holding companies, both as to intercompany relations and security issues, is imperative to safeguard the public's interest.

Mr. Gruening, with inexhaustible patience and fine discrimination, has presented the essence of the testimony assembled by the Federal Trade Commission's investigation of the publicity activities of our electric utilities. While the utilities have apparently done nothing illegal in their publicity, and while they should not be denied opportunity for an open and adequate presentation of their position in all matters pertaining to their industry, their methods of influencing public opinion—by carefully concealing their connection with pseudo impartial addresses and publications, by undertaking to modify school textbooks and college courses, by purchasing a favorable editorial attitude through advertising contracts—are deserving of the severest condemnation.

Mr. Gruening suggests no remedies, presumably on the ground that the exposure of their motives and methods must destroy the effectiveness of such propaganda activities in the immediate future. However, the obvious undesirability of permitting the utilities to tap the public's pocketbook without restraint for funds with which to finance such publicity campaigns argues strongly for giving all commissions such control over accounts and intercompany relations as will prevent a recurrence of such events.

MINUTES OF THE BUSINESS MEETINGS OF THE AMERICAN ECONOMIC ASSOCIATION HELD IN CLEVELAND, OHIO, DECEMBER 29-31, 1930

The first business meeting of the American Economic Association was held in the Hotel Cleveland, December 30, 1930, at 9:00 A.M., with President Hammond presiding.

The minutes of the meeting of December 30, 1929, were approved as printed in the *Proceedings of the Forty-second Annual Meeting,* pp. 181-184.

The following reports were read and approved:

(1) The Secretary, Mr. Deibler. (See p. 271.)

(2) The Treasurer, Mr. Deibler. (See p. 276.)

(3) The Auditor, Mr. Deibler for Mr. Eric Kohler of E. L. Kohler and Company. (See p. 277.)

(4) The Managing Editor, Mr. Dewey. (See p. 283.)

(5) The Finance Committee, Mr. Deibler for Mr. C. H. Crennan. (See p. 282.)

Professor H. Gordon Hayes of Ohio State University presented the following resolution for endorsement by the American Economic Association:

> WHEREAS, During June and July, 1930, Governor Theodore G. Bilbo dismissed 179 members from 4 institutions in the state of Mississippi; namely, the University of Mississippi, the Mississippi Agricultural and Mechanical College, the Mississippi State College for Women, and the Mississippi State Teachers College, and,
>
> WHEREAS, The American Association of University Professors has struck these institutions from its list of accredited institutions; therefore be it
>
> *Resolved,* That the American Economic Association call the attention of its members to this situation and suggest that they take cognizance thereof in considering the acceptance of a position in any of the said institutions so long as they remain off of the accredited list of the American Association of University Professors.

It was voted to refer this resolution to the Executive Committee with power.

Mr. John A. Fitch made a statement concerning the labor difficulties existing between the hotels in Cleveland and their former employees and the embarrassment which some members of the Association have felt under the circumstances. He moved that a member be designated by the American Economic Association to sit with a similar appointee of the American Association for Labor Legislation and the American Sociological Society for the purpose of making a report on the situation for the information of the members of the respective Associations.

The motion was approved and Professor William M. Leiserson of Antioch College, Yellow Springs, Ohio, was appointed to serve on this committee.

President Hammond appointed the following members as a Committee on Resolutions: Charles S. Tippetts, Chairman, James A. Estey, W. E. Payne, and L. A. Rufener.

Adjourned.

The second business meeting of the American Economic Association was held at the Hotel Cleveland, December 31, 1930, at 9:00 A.M., with President Hammond presiding.

The minutes of the meeting of December 30, 1930, were read and approved.

Voted: To receive the report from the Social Science Research Council, as

submitted by Mr. H. A. Millis, and to enter it in the *Proceedings*. (See p. 286.)

Professor Wesley Mitchell made an informal report for Professor E. R. A. Seligman concerning the progress of the *Encyclopaedia of the Social Sciences*. It was announced that the third volume is ready for distribution and that subsequent volumes will appear at the rate of three per year. Additional funds have been secured which will facilitate the preparation of the material for the remaining volumes.

Voted: To receive the report from the Joint Census Advisory Committee, as submitted by Mr. W. F. Willcox, and to enter it in the *Proceedings*. (See p. 285.)

Voted: To approve the report from the Business Research Council, Inc., as submitted by Mr. L. C. Marshall, and to print it in the *Proceedings*. (See p. 289.)

Voted: To approve the report from the Special Committee on Permanent Headquarters and the Organization of the Work of the Association, as recommended by the Executive Committee, and to refer the question of putting the recommendations into effect to the Executive Committee with power. (See p. 272.)

Voted: To approve the recommendation of the Executive Committee to accept the invitation presented by the Social Science Committee of the Chicago World's Fair of 1933, and that a special committee be appointed to co-operate, if it is deemed advisable, with other social sciences in developing a program for this occasion. (See p. 273.)

Voted: To accept the statement from the Special Committee on the labor controversy with the Cleveland hotels, as presented by Mr. John A. Fitch, and to order it printed in the *Proceedings*. (See p. 291.)

Professor Morris A. Copeland presented the following resolution which was referred to the Executive Committee, with power:

In view of the embarrassment caused to many members of the American Economic, American Political Science, American Labor Legislation, and Statistical Associations, resulting from the holding of the annual meeting in 1930 at a hotel during the course of an industrial dispute, the following resolution was passed by a group consisting of members of the above named Associations, and at one time associated with the Robert Brookings Graduate School.

It is hereby resolved that the officers of the above named Associations be requested to secure information within three months of the date of future annual meetings, as to whether a labor dispute is in progress at the hotels in which such meetings are to be held, and in the event that a strike or lockout is in progress, to notify the membership to that effect.

Signed:

Walter J. Shepard	Ray Veatch
Edward Gray	Claude Benner
Carl Swisher	Paul Homan
Idella Swisher	George H. Sabine
Robinson Newcomb	Harvey Young
Joe Gould	Eric Beecroft
I. Lubin	Esther Cole
Morris Copeland	John Horner
Ruth Ayres	J. G. Heinberg
Woodlief Thomas	Mildred Fletcher
Mark Jacobson	Cliff Hill

Mr. Tippetts presented the following report for the Committee on Resolutions:

WHEREAS, To realize the full measure of benefit from these annual meetings those who bear the responsibility for their successful outcome must labor long and industriously in order that the program may go smoothly forward, without affording too striking an example of the law of diminishing returns; and

WHEREAS, It is our custom as the sessions draw to a close to express our gratitude to those who have carried the burden of planning and preparation; therefore be it

Resolved, That the appreciation of the officers and members of this Association be tendered by the Secretary:

First, to Mr. C. C. Arbuthnot and the other members of the committee on local arrangements;

Second, to the Convention Bureau of the Cleveland Chamber of Commerce for its efficient and helpful service;

Third, to the Chairman and members of the Program Committee;

Fourth, to the committee in charge of publicity; and

Fifth, to the management of the Hotel Cleveland which cordially and courteously exerted its efforts so that our minds might be stimulated and our bodily comfort assured.

Respectfully submitted,

C. S. TIPPETTS, *Chairman*
J. A. ESTEY
W. E. PAYNE
L. A. RUFENER

The resolutions were adopted and the Secretary authorized to send copies in accordance with the instructions contained therein.

In the absence of a report, the Committee on Honorary Members was continued for the year 1931.

Mr. Mitchell reported for the Nominating Committee the following list of nominations:

President: E. L. Bogart, University of Illinois.

Vice-Presidents: E. E. Day, Rockefeller Foundation, New York City; Eliot Jones, Leland Stanford University.

Secretary-Treasurer: F. S. Deibler, Northwestern University.

Editor: D. R. Dewey, Massachusetts Institute of Technology.

Executive Committee: Leo Wolman, New York City; Broadus Mitchell, Johns Hopkins University.

Editorial Board: L. C. Gray, United States Bureau of Agricultural Economics; Myron W. Watkins, New York University.

Representative to the Social Science Research Council: M. S. Handman, University of Minnesota; A. B. Wolfe, Ohio State University.

Program Committee: Harry Jerome, University of Wisconsin.

WESLEY C. MITCHELL, *Chairman*
M. H. HUNTER
DAVID MCCABE
H. H. PRESTON
G. W. STOCKING
G. O. VIRTUE

There being no additional nominations, the Secretary was instructed to cast a ballot and the nominees were declared duly elected.

Adjourned.

REPORT OF THE SECRETARY OF THE AMERICAN ECONOMIC ASSOCIATION FOR THE YEAR ENDING DECEMBER 15, 1930

In reporting the work of the Association during the year just closed, I am including as a part of the record the minutes of all meetings of the Executive Committee held within the year.

(1) Minutes of the first meeting of the 1930 Executive Committee:

The first meeting of the Executive Committee of the American Economic Association for the year 1930 was held in the Harvard Club, New York City, March 29, 1930, at 10:30 A.M. There were present: President Hammond, presiding, and Messrs. Adams, Day, Deibler, Dewey, Ely, Kiekhofer, and Willits.

Voted: That the invitation to become a member of the Business Research Council, Inc., be approved and the President be authorized to appoint a representative from the American Economic Association to that organization.

Voted: That the President appoint a committee to draft an appropriate resolution in memory of the late President Arthur T. Hadley, to appear in the *Review,* and that a copy of the same be forwarded to the members of his family.

Voted: That the President appoint a committee of five, including himself, for the purpose of considering the general questions concerning the organization of the work of the Association, including arrangements for establishing permanent headquarters for the Association, the committee to report at the next annual meeting.

Voted: That, owing to the expense involved in connection with the proposal from the Committee on Reprints and Translations, it is the opinion of the Executive Committee that it would be inexpedient for the Association to assume any responsibility for this project at the present time.

Voted: That the question of establishing branches or sections of the Association be referred to the committee on the organization of the work of the Association.

Voted: To endorse in principle the proposal of holding a meeting with the constituent societies of the Social Science Research Council and to notify the officers of that organization that the American Economic Association will await further advices from the Council on this topic.

Voted: To ratify the proposed amendments to the constitution of the American Council of Learned Societies.

Voted: That the next annual meeting be held in Cleveland, Ohio, December 29 to 31, 1930.

Voted: That the Secretary canvass the secretaries of the associations that usually meet with the American Economic Association for the purpose of determining the place of holding the 1931 meeting and of devising a general procedure that may subsequently be followed in dealing with this question.

Voted: That the President and Secretary be authorized to appoint a chairman of the Committee on Local Arrangements.

Voted: To increase the salaries of Miss Beatrice Rogers and Miss Gertrude Tait each two hundred dollars a year, beginning April 1, 1930.

Adjourned.

(2) Minutes of the second meeting of the 1930 Executive Committee:

The second meeting of the Executive Committee of the American Economic Association for the year 1930 was held in Hotel Cleveland, Cleveland, Ohio, December 29, 1930, at 5:00 P.M. There were present, President Hammond, presiding, and Messrs. Bogart, Deibler, Dewey, Ely, Gay, and Kiekhofer.

Voted: To approve the request of Mr. James B. Child, Chief of Division of Public Documents, asking for the endorsement of Senate bill No. 3402 which provides for an increase in the total possible number of depository libraries from 665 to 1,000 and for the placing of the designation of these depositories in the hands of the Superintendent of Documents under the supervision of the Joint Committee on Printing.

Voted: That it is the sense of the Executive Committee that no significant scientific purpose would be accomplished by the American Economic Association in be-

coming an "affiliated" member of the A.A.A.S. as suggested in a communication from Dr. E. B. Wilson, President of the Social Science Research Council.

Voted: That in view of the establishment of the Facsimile Society, and the excellent work now being done by the Royal Economic Society in England in publishing reprints of significant economic works, that the standing committee of this Association on reprints and translations be discontinued with an expression of appreciation for the work the Committee has already done.

Voted: That the request of the National Advisory Council on Radio in Education calling for co-operation be denied, and a statement sent to the director of that Council that the American Economic Association has no machinery by which such co-operation could be effected.

Voted: To endorse the resolution of the United States Commission for the celebration of the Two Hundredth Anniversary of the Birth of George Washington which calls for a nation-wide observance of this anniversary in 1932.

Voted: That the report on the method of selecting the place of holding the annual meeting by means of a preferential vote of the secretaries of the participating associations, weighted by the paid up membership of each association, be approved and the plan be tried during the year 1931.

Voted: To reappoint George E. Barnett as representative to the Joint Census Advisory Committee.

Voted: That the request for endorsement of a resolution, signed by two members of the Graduate School of the University of Missouri, which calls for Congressional aid to research in the fundamental sciences such as physics, chemistry, zoölogy, botany, physiology, geology, astronomy, mathematics, economics, and sociology, be denied.

Voted: That the members of the Finance Committee be appointed annually by the Executive Committee.

Voted: To reappoint John E. Walker counsel for the Association for the year 1931.

Voted: To reappoint David Friday representative to the National Bureau of Economic Research.

Voted: To approve the request of the Authors' League of America which calls for an endorsement of the Vestal bill which provides a general revision of the copyright laws of the United States and proposes a greater copyright protection to the creative work of authors.

At the request of the Executive Committee, H. G. Moulton, Chairman of the Committee on Permanent Headquarters and Organization of the Work of the Association, presented the following report:

The Committee after careful consideration of the financial and other issues involved unanimously agree:

1. That a permanent headquarters is desirable and that the work now performed by the secretary-treasurer and the editor of the *American Economic Review* should be consolidated under one head.

2. That the permanent secretary-editorship job would require from one-half to three-fifths of the time of the incumbent of the office.

3. That it is desirable to have a split-budget arrangement, carrying the salary of the secretary-editor, with some institution with which this individual would be professionally connected.

4. That the city of Washintgon is the most desirable location for permanent headquarters, but that a decision as to location should be strongly influenced by the problem of personnel. That is to say, the right person is of paramount significance, and the right location is of secondary importance.

5. That the budget requirements, with allowances for a moderate increase in the next few years, are as follows:

Salary of secretary-editor	$ 4,000–$ 5,000
Secretarial and clerical	6,000
Articles, reviews, etc.	3,000
Other office expenses	8,000
Rent	2,000
Contingencies	2,000
Total	$25,000–$26,000

The present income of the Association (1930) equals $21,800. Additional income of from $3,000 to $5,000 would therefore be required to carry out the above plan.

6. That an effort should be made to raise an endowment fund of $100,000.

The recommendations are made on the assumption that at least one year would elapse before such a permanent headquarters could be financed and organized.

Respectfully submitted,

Harold G. Moulton, *Chairman*
Matthew B. Hammond, Ex officio
Frederick S. Deibler
Davis R. Dewey
Edmund E. Day

Voted: That the report of the Committee be approved and recommended for adoption by the Association.

The following invitation was presented by H. G. Moulton:

To the American Economic Association:

I have the honor to extend for the Social Science Committee of the Chicago World's Fair of 1933 an invitation to the American Economic Association to hold its annual meeting for that year in Chicago, preferably during the second or third weeks of June. The plans for the Fair make provision for a building devoted to the Social Sciences and the Committee is making extensive preparations for appropriate exhibits. It is hoped that all of the associations in the fields of social science will hold their annual meetings in Chicago on this occasion.

Respectfully submitted,

Harold G. Moulton

Voted: To recommend to the members of the American Economic Association that a special meeting be held during the time of the Chicago World's Fair of 1933 and that a special committee be appointed to develop an appropriate program and to co-operate, if deemed desirable, with other societies in this undertaking.

Adjourned.

During the year the office of the Secretary has carried on the ordinary activities of the Association.

The *Proceedings* of the annual meeting of 1929 were edited and published as a supplement to the March, 1930, issue of the *Review*.

Plans were perfected for putting into effect the policy that was adopted by the Executive Committee at its March, 1929, meeting, of carrying advertising in the *Review*. The first advertising matter appeared in the June issue.

The Managing Editor and the Secretary attended the Conference of Secretaries held by the American Council of Learned Societies. The special topic for consideration was the question of publication facilities and publication costs. A special investigation of this question has been carried on by the Council and a report is to be rendered at the annual meeting in January, 1931.

During the year President Hammond made the following appointments:

Representative to the Business Research Council: Leon C. Marshall.

Nominating Committee: Wesley C. Mitchell, Chairman, David A. McCabe, M. H. Hunter, G. O. Virtue, G. W. Stocking, and H. H. Preston.

Committee on Honorary Members: J. H. Willits, Chairman, A. S. Johnson, A. B. Wolfe, Frank H. Knight.

Committee on Permanent Headquarters: H. G. Moulton, Chairman, Davis R. Dewey, Edmund E. Day, Frederick S. Deibler, H. B. Hammond.

Representative to National Bureau of Economic Research: David Friday.

Committee to prepare an appropriate statement expressing the senti-

ments of the members of the Association regarding the death of President Arthur T. Hadley: Irving Fisher, Chairman, E. R. A. Seligman, and C. L. Raper.

Committee to prepare an appropriate statement expressing the sentiments of the members of the Association regarding the death of Professor Henry R. Seager: Samuel McCune Lindsay, Chairman, H. E. Hoagland, and C. A. Gulick, Jr.

Committee on Local Arrangements: C. C. Arbuthnot, Chairman.

Auditor: Eric L. Kohler and Company.

Upon request for representation the following persons were appointed to represent the Association on special occasions:

Representative to the American Academy of Political and Social Sciences: March meeting, Don C. Barrett; May meeting, Clare Wilcox; December meeting, M. L. Fair.

Representatives to the Fiftieth Anniversary of the American Society of Mechanical Engineers: Harlow S. Person, Horace B. Drury.

Representatives to the Semi-Centennial of the University of Southern California: E. L. Bogart, Horace Secrist.

In accordance with a resolution of the Executive Committee (Vol. XX, March Supplement, page 184) the President and Secretary have approved the use of the addressograph list in the following cases:

(1) J. Douglas Brown, Princeton University Press. Announcing the publication *The Labor Banking Movement in the United States.*

(2) S. Woodley, American Association for the Advancement of Science. Inviting all members of associated societies to become members of the A.A.A.S. by paying only annual dues of $5.00 instead of annual dues and entrance fee.

(3) E. D. McGarry, University of Buffalo, Bureau of Business Research. Announcing *Mortality in Retail Trade.*

(4) New York Central Railway. Circularizing members in respect to rates and accommodations to the annual meeting.

The Association has continued its co-operation with the Pollak Foundation and the Adelphi Publishing Company, and circulars have been sent to members announcing the reduced rates on the publications of these two concerns.

The following table shows the present status of the membership and the changes that have occurred during the year ending December 15, 1930, the date of closing the books of the Association.

Members and subscribers in December, 1929			3 748
Annual members in December, 1929		2 671	
Members resigned in 1930	128		
Members removed for lack of address in 1930	25		
Members dropped for nonpayment of dues in 1930	148		
Annual members died in 1930	15	316	
		2 355	
New members in 1930		349	
Total annual members in December, 1930		2 704	

Life members in December, 1929	79		
Life members added in 1930	1		
	80		
Life members removed in 1930	4		
Total life members in December, 1930		76	
Honorary members in December, 1929	16		
Honorary members added in 1930	1		
Total honorary members in December, 1930		17	
Total members in December, 1930		2 797	
Subscribers in December, 1929	982		
Subscribers discontinued in 1930	148		
	834		
Subscribers added in 1930	222		
Total subscribers in December, 1930		1 056	
Total members and subscribers in December, 1930			3 853
Net gain			105

The net gain for the year of 105 consisted of 31 members and 74 subscribers. Notwithstanding a year of general depression, there has been an increase in membership. This showing has been made possible by the splendid co-operation which has been rendered by a large number of the members. The lists of names furnished the Secretary, especially from those connected with institutions conducting graduate work, has yielded fruitful results. The Secretary takes this opportunity of expressing his appreciation to all who have sent in nominations for membership.

It is with regret that I have to announce that during the year the deaths of the following members have been reported and their names have been removed from our active membership list:

Leon Brummer
Frederick Redman Clow
Otto M. Eidlitz
Abraham Erlanger
W. C. Escher
Tokuzo Fukada (Life Member)
Arthur T. Hadley
Ludwig Kotany (Life Member)
George Lines
V. Everit Macy (Life Member)
Adelbert Moot
Edward B. Morris
Thomas Hamilton Hoge Patterson
Waldron H. Rand
Sterling F. Rigg
Henry Rogers Seager (Life Member)
Katharine Snodgrass
Charles S. Thurston
Frederick C. Wagner
William L. West

Respectfully submitted,

F. S. Deibler,
Secretary

REPORT OF THE TREASURER OF THE AMERICAN ECONOMIC ASSOCIATION FOR THE YEAR ENDING DECEMBER 15, 1930

The report of the Treasurer is based upon the report of the Auditor. The current assets and current liabilities of the Association are shown on the balance sheet (Exhibit I). The income and expenditures appear in Exhibit II. The net income for the year was $2,889.06. The total assets are now $44,362.99. This item includes 525 unsold copies of the *Economic Essays* which are carried at $1,257.60, but it does not include the stock of unsold copies of the past publications of the Association. No inventory value has been placed on these volumes, although the Association receives a considerable income from the yearly sales of these publications.

During the year the Association received $377.32 from advertising placed in three issues of the *Review*. There should be a considerable increase of income from this source during the next few years, although the total amount is not likely to be a large sum.

The total expenses for the year have increased but $691.59, notwithstanding authorized salary increases of $1,300.00. Of this sum $163.00 represents an increase in "administrative and operating" expenses. The amounts classified under this heading fluctuate from year to year, depending upon a number of influences, such as expenses of the annual meeting and of the Executive Committee, office salaries, and the like. The remainder of the total increase is charged to "publication expense." The cost of printing the *Review* is larger by $384.47 than last year, which may be explained partly by the fact that 300 more copies of the *Review* were published during the current than during the previous years. There were also 43 more pages of printed matter.

The honorarium paid the Managing Editor was increased by the Executive Committee from $1,500 to $2,500, an increase that was long overdue.

The investments of the Association are in excellent condition, showing a present market value in excess of their cost to the Association. Credit for this very satisfactory situation, in the face of a general decline of security prices, can be given to the members of the Finance Committee, who are in active touch with the securities market. The Association has received, as the above facts testify, very valuable service which has been most generously given by the members of the Committee.

If the Association does not assume any large increase in its obligations, it can continue to operate on its present income and expect a small annual addition to surplus.

Respectfully submitted,

F. S. Deibler,
Treasurer

REPORT OF THE AUDITOR

Chicago, Illinois, December 22, 1930.

Executive Committee,
American Economic Association, Inc.,
Evanston, Illinois.

DEAR SIRS:

We have audited the books and records of the American Economic Association, Inc., for the year from December 14, 1929, to December 15, 1930, and herewith submit our report together with the following financial statements:

Exhibit	*Number*
Balance sheet—December 15, 1930	I
Statement of income and expense—Year ending December 15, 1930	II

Results from Operations

The net income for 1930 of $2,889.06 represents a decline of $251.31 as compared with the operating results for the year 1929. Following is a comparative summary of income and expense for the two years:

Particulars	Year ending December 14, 1929	Year ending December 15, 1930	Increase or *decrease*
Income from—			
Dues	$ 13,430.75	$ 13,733.80	$ 303.05
Interest on investments and bank balances	1,965.30	2,095.76	130.46
Profit on redemption of bond		57.50	57.50
Economic Essays	72.87	20.33	*52.54*
Other sources	2.11	3.92	1.81
Total income	$ 15,471.03	$ 15,911.31	$ 440.28
Expenses and costs—			
Administrative and other operating expenses	$ 5,488.09	$ 5,651.09	$ 163.00
Publication costs	12,107.02	13,254.00	1,146.98
Publication income	*5,264.45*	*5,882.84*	*618.39*
Total expenses and costs	$ 12,330.66	$ 13,022.25	$ 691.59
Net income	$ 3,140.37	$ 2,889.06	$ *251.31*

An increase of $410.55 in dues from regular members was partially offset by a decline of $107.50 in dues from subscribing and contributing members.

A comparison of publication income and expenses for 1930 with 1929, together with the budget of expenses submitted for 1930 by the managing editor is given below:

Particulars	Year 1929	Year 1930	Budget for 1930
Income—			
Subscriptions other than from members	$ 4,574.51	$ 4,917.42	
Sale of copies	689.94	588.10	
Advertising		377.32	
Total income	$ 5,264.45	$ 5,882.84	

Expenses—			
Printing	$ 4,927.62	$ 5,312.09	$ 5,000.00
Editor's honorarium	1,500.00	2,500.00	2,500.00
Contributions	1,328.75	1,447.75	1,500.00
Proceedings	1,865.25	1,353.91	
Other costs	2,485.40	2,640.25	2,500.00
Total expenses	$ 12,107.02	$ 13,254.00	$ 11,500.00
Net expense	$ 6,842.57	$ 7,371.16	

The 1930 budget included only the expenses of publishing the *Review* and did not provide for publishing the proceedings of the annual meeting; 4,300 copies of each issue of the *Review* were printed.

Balance Sheet

Cash in checking account was reconciled with the bank statement, and cash in savings accounts was checked to savings pass-books. The State Bank and Trust Company of Evanston furnished us with a certified list of the investments held in trust for the Association. We were informed that the investments have been reviewed by the Finance Committee of the Association and that a report thereon is being prepared.

Dues and subscriptions paid in advance are properly shown as unearned income.

Expenses of $184.70 for printing and distributing a booklet reduced the membership extension fund to $4,880.14.

Life memberships were increased by dues of $200.00 for one new member and reduced by $425.00 upon the transfer to surplus of the dues of four deceased life members.

Changes in Financial Condition

The following comparison of balance sheets at December 14, 1929, and December 15, 1930, shows the principal changes that have taken place in the financial structure of the Association during the year:

Assets	Year ending December 14, 1929	December 15, 1930	Increase or *decrease*
Cash and cash funds	$ 7,005.46	$ 9,008.48	$ 2,003.02
Investments, at cost	31,569.48	32,439.48	870.00
Receivables (net)	713.30	756.60	43.30
Inventories, at cost	1,590.51	1,577.13	*13.38*
Furniture, fixtures, etc., at cost	1,124.31	1,127.91	3.60
Reserve for depreciation	*456.38*	*546.61*	*90.23*
Total assets	$ 41,546.68	$ 44,362.99	$ 2,816.31
Liabilities and Net Worth			
Accounts payable	$ 48.62	$ 10.00	$ *38.62*
Unearned income	2,289.86	2,240.43	*49.43*
Membership extension fund	5,064.84	4,880.14	*184.70*
Life memberships	6,250.00	6,025.00	*225.00*
Surplus—			
Balance—December 14, 1929	27,893.36	27,893.36	

Net income for the year ending December 15, 1930		2,889.06	2,889.06
Transfer from life memberships to surplus —1930		425.00	425.00
Total liabilities and net worth	$ 41,546.68	$ 44,362.99	$ 2,816.31

It will be noticed that the increase in surplus of $3,314.06 was invested principally in cash and securities.

The books of the Association were found to be in excellent condition.

Very truly yours,

E. L. Kohler and Co.,
Certified Public Accountants

EXHIBIT I

AMERICAN ECONOMIC ASSOCIATION, INCORPORATED
BALANCE SHEET, DECEMBER 15, 1930

Assets

CURRENT ASSETS AND INVESTMENTS:			
Cash in banks—			
State Bank and Trust Company, Evanston, Illinois—			
Checking account	$ 3,032.35		
Savings account	1,301.42		
Central Trust Company, Cambridge, Massachusetts—Savings account	4,674.71	$ 9,008.48	
Investments, at cost		32,439.48	
Receivables—			
Review advertising	$ 117.50		
Interest accrued on investments	482.62		
Membership dues	233.75		
Publication sales	89.30		
Total receivables	$ 923.17		
Less—Reserve for doubtful accounts	166.57	756.60	
Inventories, at cost—			
Economic Essays	$ 1,257.60		
Cover stock	118.17		
Stamped envelopes	201.36	1,577.13	$ 43,781.69
FURNITURE, FIXTURES AND BOUND PERIODICALS AT COST		$ 1,127.91	
Reserve for depreciation		546.61	581.30
Total assets			$ 44,362.99

Liabilities and Net Worth

CURRENT LIABILITIES:			
Accounts payable		$ 10.00	
Unearned income—			
Membership dues	$ 485.00		
Subscriptions	1,755.43	2,240.43	$ 2,250.43
MEMBERSHIP EXTENSION FUND			4,880.14
NET WORTH:			
Life memberships		$ 6,025.00	
Surplus unappropriated—			
Balance—December 14, 1929, per audit report	$ 27,893.36		
Excess of income over expenses—year ending December 15, 1930 (Exhibit II)	2,889.06		
Transfer from life memberships due to death of four life members	425.00	31,207.42	37,232.42
Total liabilities and net worth			$ 44,362.99

EXHIBIT II

Particulars			*Amount*	
Income From Dues:				
Regular members (less $202.70 defaulted dues unpaid at December 15, 1930)			$ 13,173.80	
Subscribing and contributing members			560.00	$ 13,733.80
Other Income:				
Income from investments—				
Interest earned on—				
Bonds		$ 1,695.21		
Certificates of deposit		141.18		
		$ 1,836.39		
Custodian's fee		32.33	$ 1,804.06	
Interest earned on savings and checking accounts			291.70	
Profit on redemption of bond			57.50	
Royalties on *Economic Essays*			20.33	
Miscellaneous income			3.92	2,177.51
Total income				$ 15,911.31
Administrative and Other Operating Expenses:				
Secretary's salary		$ 1,000.00		
Office salaries		2,811.83		
Postage		330.21		
Stationery and printing		102.57		
Office supplies		46.32		
Telephone and telegrams		72.20		
Insurance		79.10		
Depreciation		90.23		
Annual meeting		425.90		
Executive Committee expense		491.65		
American Council of Learned Societies		65.00		
Auditing		75.00		
Other expenses		61.08	$ 5,651.09	
Publication Expenses:				
Printing		$ 5,312.09		
Editor's honorarium		2,500.00		
Contributions		1,447.75		
Editorial expenses and supplies		2,555.14		
Editor's traveling expenses		45.66		
Proceedings		1,353.91		
Sundry publication expense		39.45		
Total publication expenses		$ 13,254.00		
Publication income—				
Subscriptions other than from members	$4,917.42			
Sales of copies	588.10			
Advertising	377.32	5,882.84	7,371.16	
Total expenses				13,022.25
Net income for year (Exhibit I)				$ 2,889.06

REPORT OF THE FINANCE COMMITTEE

During the year ending December 15, 1930, the following changes in the investment list were made:

The $1,000 Standard Milling Company Bond was called at $972.50.

The proceeds of this bond and additional surplus were invested as follows:

$1,000	Pennsylvania Railroad Company, Deb. 4½%, due 1970	$944.13
1,000	North American Edison Co., Deb. 5%, Series "C," due 1969	984.72
1,000	Erie Railroad Company, Ref. and Imp. Mort. 5%, due 1975	932.50

The total investments of the Association, carried at cost or market, whichever is lower, now amount to $31,753.66. The market value of the list as a whole on December 23 was $195.92 above cost. The list has been formally reviewed quarterly by your Committee, and has been subject to more frequent investigation. The annual interest return from this list amounts to $1,690.00.

The list stands as follows:

$2,000	Armour and Company of Delaware, 1st and Ref., 20 yr., 5½%, Ser. A.	$1,460.00
2,000	Bell Telephone Company of Pa., 1st and Ref. 5%	1,973.00
1,000	Louisville Gas and Electric Co., 1st, 5%	915.00
5,000	Northern Pacific Railway Co., Ref. 5%	4,825.00
2,000	Commonwealth Edison Co., 1st 5%	2,050.00
2,000	Pacific Gas and Electric Co., 1st and Ref. 5½%	1,970.00
2,000	Illinois Bell Telephone Co., 1st 5%	2,007.50
2,000	Illinois Central Railroad Co., 1st and Ref. 5%	1,995.00
2,000	Pacific Mills, Ltd., 1st 6%	2,000.00
1,000	Great Northern Railway Co., Gen. Series "A" 7%	1,100.00
1,000	Southern Illinois and Missouri Bridge Co. 4%	810.00
1,000	Crown Willamette Paper Co. 1st 6%	980.00
2,000	U. S. of America, 4th Liberty Loan 4¼%	2,076.20
1,000	By-Products Coke Corp. 1st 5½%	1,020.00
1,000	National Dairy Products Corp. 5¼%	985.00
1,000	Ohio Power Co. 1st and Ref. "D" 4½%	960.00
1,000	Chicago, Rock Island and Pacific Equip. Trust "P" 4½%	954.78
1,000	United Biscuit Co. 6%	983.25
1,000	Erie Railroad Co. Ref. and Imp. Mort. 5%	770.00
1,000	Pa. Railroad Co. Deb. 4½%	944.13
1,000	North American Edison Co. Deb. Series "C" 5%	975.00

Respectfully submitted,

C. H. Crennan, *Chairman*
Waddill Catchings
F. S. Deibler

REPORT OF THE MANAGING EDITOR OF THE AMERICAN ECONOMIC REVIEW FOR THE YEAR ENDING DECEMBER, 1930

The cost of the *Review* during 1930 was $11,935.22 as compared with $10,022.59 in 1929. This increase of $1,912.63 was largely due to an increase of salaries in the office of the Managing Editor, and to an increase in printing costs. This latter, in turn, was due to an increase in the number of pages printed—811 as compared with 768 in 1929—and to a slight gain in the number of copies printed—4,300 as compared with 4,225.

By principal items the cost of the *Review* during 1930 was as follows:

Printing (paper, reprints, postage, etc.)	$ 5,386.67
Editorial	2,500.00
Clerical	2,253.00
Supplies	347.80
Contributors	1,447.75
	$11,935.22

On the basis of printing 4,300 copies the following budget for 1931 is submitted:

Printing (paper, reprints, postage, etc.)	$ 5,300.00
Editorial	2,500.00
Clerical	2,400.00
Supplies	300.00
Contributors	1,500.00
	$12,000.00

The following persons have served as editors during the past year: Professor J. M. Clark and Dr. E. G. Nourse, whose terms expire this year; Professor I. L. Sharfman and Professor Sumner H. Slichter, whose terms expire in 1931; and Professor F. B. Garver and Professor N. S. B. Gras, whose terms expire in 1932.

During the past year 184 persons have co-operated in writing leading articles, communications, reviews, and notes. This is the largest number of contributors the *Review* has enjoyed, and the editors greatly appreciate the generous aid thus rendered.

It has become a serious problem to provide space for adequate listing of new books in the field of economics. During the first ten years of our publication the average number of pages devoted to such listing was 109, while during the last ten years the average number of pages has been extended to 178. This has been an encroachment upon the space given to reviews of new books, for in the latter period there has been an average of 126 pages as compared with 225 pages in the earlier decade.

During the past year it has also been necessary to defer the publication of leading articles which have been accepted by the board of editors. It is possible that in the near future it may appear desirable to publish six issues each year instead of four.

It is to be noted that beginning with the June issue a few pages of advertisements have been carried in the *Review*.

Appended are the comparative tables showing the distribution of contents and cost by principal items, in continuation of tables previously given.

Respectfully submitted,

DAVIS R. DEWEY,
Managing Editor

TABLE I—PAGES GIVEN TO EACH SECTION

Year	Leading articles	Reviews	New books listed	Documents, reports, etc.	Periodical abstracts	Notes	Theses	Totals
1911	342	304	62	89	133	40	8	978
1912	291	298	101	110	186	41	11	1038
1913	347	268	104	141	167	43	8	1078
1914	327	243	146	113	166	35	10	1030
1915	314	257	90	142	144	42	14	1003
1916	388	256	91	90	140	46	13	1024
1917	378	192	110	127	120	42	15	984
1918	389	157	91	112	99	41	17	906
1919	374	163	154	103	95	47	12	948
1920	395	109	155	98	122	42	15	936
1921	331	103	133	39	117	38	11	772
1922	293	91	158	35	124	37	13	752
1923	298	122	184	26	113	43	14	800
1924	339	110	191	23	113	42	18	836
1925	325	131	178	27	110	38	23	832
1926	270	137	184	15	108	43	27	784
1927	262	120	195	32	114	42	27	792
1928	335	111	176	12	121	45	28	828
1929	315	181	173	18	1	52	28	768
1930	348	154	210	12	—	58	29	811

TABLE II—EXPENDITURES

Year	Printing	Salary of editor	Payments to contributors	Clerical	Supplies	Totals
1911	$2495.18	$1500.00	$1320.25	$ 865.50	$413.51	$ 6730.59*
1912	3220.83	1500.00	1114.50	794.89	292.68	6922.90
1913	3328.01	1500.00	1268.35	983.09	325.10	7404.55
1914	3023.62	1500.00	1312.25	1236.29	459.18	7531.34
1915	2834.91	1500.00	1210.00	1171.87	286.86	7003.64
1916	3257.27	1500.00	1423.00	1173.93	339.86	7694.06
1917	3762.37	1500.00	1267.00	1151.30	326.01	8006.68
1918	3497.73	1500.00	1203.25	1260.06	332.73	7793.77
1919	5049.50	1500.00	1231.50	1325.93	347.84	9454.77
1920	6656.31	1500.00	1122.75	1595.64	307.20	11181.90
1921	5646.97	1500.00	64.50	1472.50	319.97	9003.94
1922	4795.28	1500.00	———	1370.00	314.77	7980.05
1923	5032.59	1500.00	———	1650.09	437.86	8620.54
1924	5423.28	1500.00	1110.25	1464.01	305.32	9802.86
1925	5713.01	1500.00	1133.50	1757.32	406.36	10510.19
1926	5332.24	1500.00	1128.00	1589.86	323.43	9873.53
1927	5619.20	1500.00	1013.75	1806.50	297.25	10236.70
1928	5321.95	1500.00	1190.50	1956.50	375.37	10344.32
1929	4927.62	1500.00	1328.75	2004.50	261.72	10022.59
1930	5386.67	2500.00	1447.75	2253.00	347.80	11935.22

* Includes $136.15, travelling expenses of editors.

REPORT OF THE JOINT CENSUS ADVISORY COMMITTEE

At the request of the Director of the Census a meeting of the Census Advisory Committee was held at 9:30 A.M., on Saturday, November 8, 1930, at the Bureau of the Census in Washington, to consider the advisability of making a sample census of unemployed. Four members of the Committee, Professors George E. Barnett, W. I. King, Leo Wolman, and Walter F. Willcox, and one former member, Professor G. F. Warren, who had been especially invited by Director Steuart to attend, were present.

The Director of the Census in a preliminary explanation said that he had been asked to get the opinion of the Committee on the question of taking a census of unemployment in a limited area or for certain districts as a sample, so that the results could be used for comparison with those of the complete census of unemployment taken in April, 1930, and as a basis in estimating the total number of unemployed in the United States at the present time.

After a full discussion the Committee adopted unanimously the following resolutions:

1. The Committee believes that at the present time the best aid that the Bureau of the Census can furnish on the subject of measuring unemployment is by expediting the publication of the state bulletins giving detailed results of the unemployment census taken last April, including classification of the unemployed by age, by sex, by number of weeks unemployed, by reason for unemployment, by family relationship, and by occupation. These bulletins will be of great value in measuring the nature, extent, and seriousness of unemployment.

2. The Committee believes it desirable that a special tabulation of information on the schedules of the current census be made to show the number of unemployed in their relation to the families to which they belong and thus add materially to what is now known about unemployment.

3. The Committee believes that a special enumeration of the unemployed and of population through a sampling census is not to be recommended at this time.

Respectfully submitted,

WALTER F. WILLCOX,
Chairman

REPORT OF THE REPRESENTATIVES OF THE ASSOCIATION TO THE SOCIAL SCIENCE RESEARCH COUNCIL

I submit herewith a brief report on the work of the Social Science Research Council during the past year:

I. *A Question of Policy*. The Council, in its support, has stressed cross-discipline problems, not because of any lack of appreciation of problems falling within the limits of a single discipline, but because of a desire to assist at those points in the research field where the difficulties confronting the investigator are obviously great. At the Hanover meeting, September last, the Council's policy was re-examined and stated in the following words:

> The Social Science Research Council is concerned with the promotion of research over the entire field of the social sciences. The Council's thinking thus far has been largely in terms of social problems which cannot be adequately analyzed through the contributions of any single discipline. It is probable that the Council's interest will continue to run strongly in the direction of these inter-discipline inquiries. At the same time, the Council is quite aware of the fundamental place which the several recognized disciplines occupy in the upbuilding of more effective scientific research in the social field. The Council consequently acknowledges its definite responsibility for the promotion of research in the several constituent disciplines. In giving continued consideration to the needs of research in the individual disciplines, the Council would welcome the assistance of the constituent societies.

Growing out of this action, plans are under way further to supplement this plan of the Council's through specific co-operation with the several constituent societies.

II. *Council Program*. In line with the Council's policy of developing constantly wider contacts with research groups in the social science field, members-at-large representing geography and education have been added during the past year. A member-at-large from the field of psychiatry was appointed for a second term, and representatives of public health and law also hold memberships-at-large.

In order to give further focus to its work, the Council has moved steadily during the past year in the direction of concentrating a part of its energy on the development of research in certain specified fields. A section on research in international problems is being set up at the present time, and Professor James T. Shotwell of Columbia University has joined its staff to direct this program. The various committees that have operated in the past in the economic field are being concentrated under a single section on business, finance, and industry under the direction of Dr. Meredith B. Givens. Professor Wesley C. Mitchell has been given a small grant for his use in exploring the possibilities for a third section devoted to the problem of consumption and leisure, the spending of time and money. Other research areas are actively under consideration.

III. *Regional Committees*. Last year the Council set up regional committees in the South and on the Pacific Coast, in order to maintain more effective contact with the research interests of social scientists in these areas. It is obvious that no matter where the office of a national council is located, it will be unfortunately remote from certain other parts of the country. Every effort has been made during the past year to develop the

work of these regional committees. The latter are not in any sense confined to regional problems but are encouraged to transmit to the Council or to develop independently problems of all kinds of concern to the research workers in their areas. The Pacific Coast Committee has operated actively during the past year as has the Southern Regional Committee. In order to stimulate further the research activity in the area of the latter, the Council has made available a special sum for grants-in-aid to southern social scientists, to be administered by the Southern Regional Committee. This move was taken because of the general lack of research funds in most of the southern institutions and the prevalence of heavy teaching schedules. It is hoped that if the funds can be made available for several years, research can be strengthened in many institutions.

IV. *Local University Research Councils.* Reference has been made in earlier reports to local research councils. The number of such is growing rapidly. A year ago the Council held a conference of representatives of these councils in connection with its annual summer conference. Since that time it has maintained constant contact with each of these councils, circulating minutes, reports, and other material of interest to the various secretaries. It is planned to call together again representatives of this widening group of active local institutions for a second conference under the Council's auspices.

V. *Fellowships.* During the year, the Council's three fellowship programs have continued: thirty fellowships, being awarded in the senior series of post-doctoral fellowships, twenty-four fellowships under the five-year program of fellowships in agricultural economics and rural sociology, aimed at developing more effective research personnel through whom to utilize available government funds in the field of agriculture, and twenty-six fellowships in the newly constituted series of fellowships for southern graduate students.

A six-year summary of the fellowships granted in the post-doctoral series, distributed by discipline, shows the following totals: anthropology, seven; economics, thirty-three; history, thirty-one; political science, twenty-two; sociology, seventeen; psychology, thirteen; statistics, one; law, two; education, one; geography, two; problems of scientific methodology, four. Of course, every effort is made by the Council to maintain equal opportunity for applicants from all of the fields represented by its constituent societies. In the last analysis, however, the Council must be governed by the availability of first rate applicants who either come to it or whom it is able to discover. Hence the disparity in the numbers granted to the different disciplines.

VI. *Grants-in-Aid.* During the past year, thirty-five grants-in-aid were awarded to mature scholars.

A summary of grants during the four years of operation of these awards shows the following: anthropology, four; economics, fourteen; history, thirty-eight; political science, thirteen; sociology, eight; psychology, nine; statistics, two; law, one; geography, four. As regards the disparity here represented among the various disciplines, the same condition holds as was noted immediately above as regards fellowships.

VII. *Committee Activity.* It is unnecessary to review the work of the several Council committees. Reference may, however, be made to two of these.

The Committee on Social and Economic Research in Agriculture has pushed forward actively its series of monographs on scope and methods of research in agriculture. There are to be approximately twenty-two studies in this series, all under the general editorship of Professor John D. Black of Harvard University. A subcommittee was set up under the Committee on Agriculture to study the kind and extent of mathematical training for social investigators; another subcommittee has developed an extensive study of rural social work; while still a third committee has developed a plan for which funds have been secured for an extensive program of graduate training in agriculture in Washington, D.C.

The other committee to which reference may be made is that on business research. Plans for long time studies of four major industries to be carried on in strategically located university business schools have been completed during the year, and funds are being sought at the present time for these studies. The four industries are the automobile, publishing, coal and lumber.

VIII. *The Chicago World's Fair.* Perhaps attention should be called to the fact that the Council has set up a Social Science Committee for Chicago's World's Fair, 1933. Professor Odum of the University of North Caroline has been placed in charge of exhibits in the social sciences, and an advisory committee is being selected to function in co-operation with him. The question of meetings of the scientific associations at the time of the fair, June to October, has been raised. Perhaps our Association, co-operating with other associations, should consider whether it will hold a special meeting at that time. The economics of a century of progress could be developed into a splendid program.

Respectfully submitted,

H. A. Millis
A. S. Johnson
G. E. Barnett

REPORT OF THE REPRESENTATIVE OF THE AMERICAN ECONOMIC ASSOCIATION TO THE BUSINESS RESEARCH COUNCIL

The Business Research Council has been organized with Harry S. Dennison as its president, C. O. Ruggles as its vice-president, and W. J. Donald as acting secretary-treasurer.

The present membership of the Council is as follows:

A. Members at Large:

Henry S. Dennison, President, Dennison Manufacturing Company, Framingham, Massachusetts.

Sam A. Lewisohn, Vice-President, Miami Copper Company, 61 Broadway, New York, New York.

Arthur H. Long, Industrial Relations Counselors, 165 Broadway, New York, New York.

Joseph H. Willits, Industrial Research Department, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pennsylvania.

C. O. Ruggles, Professor of Public Utility Management, Graduate School of Business Administration, Harvard University, Cambridge, Massachusetts.

Dwight T. Farnham, Manager, Industrial Department, Peat, Marwick, Mitchell and Company, 40 Exchange Place, New York, New York.

Dr. Edwin F. Gay, Professor of Economics, Harvard University, Cambridge, Massachusetts.

W. J. Donald, Managing Director, American Management Association, 20 Vesey Street, New York, New York.

B. Members by Appointment:

Donald R. Belcher, Assistant Chief Statistician, American Telephone and Telegraph Company, 195 Broadway, New York, New York, appointed by American Statistical Association.

E. E. Lincoln, Economist, International Telephone and Telegraph Corporation, 67 Broad Street, New York, New York, appointed by American Management Association.

L. C. Marshall, Institute of Law, Johns Hopkins University, Baltimore, Maryland, appointed by the American Economic Association.

Channing E. Sweitzer, Managing Director, National Retail Dry Goods Association, 225 West 34th Street, New York, New York, appointed by the American Trade Association Executives.

Ralph E. Heilman, Dean, School of Commerce, Northwestern University, Wieboldt Hall, Chicago, Illinois, appointed by the American Association of Collegiate Schools of Business.

A modification has been made in the statement of the purposes of the Council. The precise character of this modification may be best seen from the amendment of Article III of the Articles of Incorporation. This Article now reads as follows:

> The nature of the business, objects or purposes proposed to be transacted, promoted or carried on in co-operation with governments, universities, learned societies, associations, corporations, and individuals are:

1. To encourage, aid, counsel, support, direct, or to carry on or conduct, directly or indirectly:
   a. Any scientific work of investigation or research in any of the general fields of business and/or
   b. Any group, movement, institution, or organization engaged in any scientific work of investigation or research in any of the general fields of business, and/or
   c. The development or management of any machinery, methods, devices, means, agencies, or instrumentalities that may be useful in any scientific work of investigation or research in any of the general fields of business.

In carrying out these objects and purposes, the Council may:

1. Establish and maintain a register of research studies concerning the field of business.
2. Make available information regarding business research as provided in the by-laws and/or rules.
3. Report from time to time on the status and progress and trends in business research.
4. Assist in the avoidance of unnecessary or undesirable duplication and overlapping in business research and encourage business research as provided in the by-laws and/or rules.
5. Use such other means and take such other steps as are consistent with the purposes of the Council.

In addition to the foregoing change in the Articles of Incorporation, a change has been made in the membership so that the maximum number of members will now be twenty-four instead of twenty-three as formerly, and the number to be appointed by organizations or associations may equal the number of members at large.

The Council has not as yet worked out any comprehensive program of action, for it has not yet been financed in any large way. The largest single piece of work now in preparation is a report of research for the year 1931. This report will cover research being carried on by the following:

1. Collegiate schools of business which are members of the American Association of Collegiate Schools of Business.
2. A number of departments of business administration which are not organized as schools of business administration.
3. Engineering schools which are interested in certain aspects of business research.
4. Certain schools of education and bureaus of educational research which are interested in particular aspects of business research.
5. Departments of economics and certain other institutions of research, bureaus attached to universities and other collegiate institutes such as the Yale Institute of Human Relations, etc.

Respectfully submitted,

L. C. Marshall

THE CLEVELAND HOTEL CONTROVERSY

This statement of fact concerning the controversy now going on in the Cleveland hotels is presented for two reasons:

First, because many members of the various societies now in session here are asking why we met in hotels that have not succeeded in working out amicable relation with their employees.

Second, because there has arisen an insistent demand for at least an introduction to the facts lying behind the controversy.

For aid in considering the first question we have turned to the local committee on arrangements and to the officers of the American Economic Association and of the American Association for Labor Legislation. As a result we are satisfied that the various associations meeting in Cleveland hotels at this time could not without serious embarrassment have responded to requests that came to them from various sources to take the meetings away from Cleveland. Contracts were made with the hotels before the controversy had reached an active stage, and later, when the situation was made clear to the societies, plans were too far developed to make it possible to consider removal to another city. The Association for Labor Legislation did, however, move all of the meetings over which it had exclusive control out of the hotels involved in the controversy, remaining only for meetings held jointly with other societies.

In order to ascertain the facts of the controversy we have examined the documents essential to an understanding of the situation and have interviewed as many of the persons acquainted with the matter as we could, including the city manager and others representing the city, officers of the unions involved, and observers not personally concerned. We regret to say that despite earnest efforts on our part we were unable to see any of the hotel managers.

This brief statement is not therefore a report based upon thorough investigation but a somewhat impressionistic statement of facts immediately available which necessarily disregards underlying factors that an exhaustive study would reveal.

In the main this is a labor controversy of a type that is not unusual. Up to last summer the hotels had had continuous contractual relations with the unions running over a number of years. A day or so before the expiration of the last contract, which terminated on July 15, the Cleveland Hotels Association notified the unions that they would discontinue all relations with them on that date and at the same time offered individual contracts to their employees. Many, perhaps most, of the employees refused to sign the contracts and were, accordingly, dismissed; whereupon the union declared that a lockout was in progress and picketing began.

The city manager appointed a committee to try to bring the controversy to an end, but their efforts proved fruitless when the hotel managers failed to meet the committee, sending in their stead an attorney who filed a statement signed by the managers declaring that they would not under any circumstances renew their relations with the union.

Regardless of the right or wrong of it the whole matter boils down to a

controversy of a type that is by no means uncommon, in which an association of employers sets out to get rid of a union. The individual contract allows the signers to remain union members if they wish, but refusal to confer or deal with the union establishes a condition of nonunionism. A less common feature of this controversy is the fact that the hotel managers have not at any time offered any reasons of consequence for their substitution of individual for collective bargaining. We are informed by newspaper men that they have been unable to secure a reasoned explanation of the refusal to continue contractual relations with the union. Similarly, we ourselves failed, despite repeated attempts, to secure any statement from any representative of the Hotels Association.

The signers of this report do not feel justified in characterizing any of the facts set forth. They are presented for the information of the members of the two associations that we represent, and for such further inferences and conclusions as may seem justified.

William M. Leiserson, *American Economic Association*
John A. Fitch, *American Association for Labor Legislation*

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